Missouri Corporate Income Tax Report

JOINT COMMITTEE ON TAX POLICY

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Background

The corporate income tax was introduced at the same time as the individual income tax, January 1, 1917; the tax rate was also the same- one-half of one percent. The coupling with the federal tax code established the base of the tax as federal taxable income from Missouri sources after allowing for some adjustments. After coupling with the federal Internal Revenue Code in 1973, Missouri established a rate of 5% on corporate income.[1]

As a result of the passage of SB 380 in 1993, Missouri increased the rate to 6.25% and halved the deduction that could be taken for federal income taxes paid. These provisions, coupled with the limit of a $5,000 deduction for individual filers and a $10,000 deduction for combined filers on federal income taxes paid, helped fund the new education formula that was the intent of the bill.

Corporation Defined

Section 143.441, RSMo, defines a corporation as the following:

(1) Every corporation, association, joint stock company, and joint stock association organized, authorized, or existing under the laws of this state, and every corporation, association, joint stock company, and joint stock association, licensed to do business in this state, or doing business in this state, and not organized, authorized, or existing under the laws of this state, or by any receiver in charge of the property of any such corporation, association, joint stock company or joint stock association;

[1] This information was obtained from the University of Missouri- Columbia Economic Policy Analysis and Research Center report on Corporate Income Taxation. A copy of the report is included as Appendix A.

(2) Every railroad corporation or receiver in charge of the property thereof which operates over rails owned or leased by it and every corporation operating any buslines, trucklines, airlines, or other forms of transportation operating over fixed routes owned, leased, or used by it extending from this state to another state or states;

(3) Every corporation, or receiver in charge of the property thereof, which owns or operates a bridge between this and any other state; and

(4) Every corporation, or receiver in charge of the property thereof, which operates a telephone line or lines extending from this state to another state or states or a telegraph line or lines extending from this state to another state or states.

However, the same section, 143.441, RSMo, states that the corporate income tax does not apply to:

(1) A corporation which by reason of its purposes and activities is exempt from federal income tax. The preceding sentence shall not apply to unrelated business taxable income and other income on which chapter 1 of the Internal Revenue Code imposes the federal income tax or any other tax measured by income;

(2) An express company which pays an annual tax on its gross receipts in this state;

(3) An insurance company which pays an annual tax on its gross premium receipts in this state;

(4) A Missouri mutual or an extended Missouri mutual insurance company organized under chapter 380, RSMo; and

(5) Any other corporation that is exempt from Missouri income taxation under the laws of Missouri or the laws of the United States.

Federal Taxable Income

Much like the individual income tax, gross income for a corporation includes gross profits, income from dividends, interest, rents and royalties, net gain on sales or exchanges, or any other income earned by the corporation. Once the sum of these incomes are added together, the corporation must then subtract: compensations and salaries and wages to employees, the cost of any repairs, bad debts, rents, taxes, interest, contributions, amortization, depreciation and depletion, advertising, pension and profit-sharing plans, net operating losses, a deduction for dividends-received[2], organizational expense amortization, employee benefit plans, and any other costs incurred by the corporation that year.

Missouri Taxable Income

Additions to Federal Taxable Income[3]

A. The interest paid on state and local government obligations from sources other than Missouri excluded from the FAGI per Section 103 of the Internal Revenue Code (which can be reduced by related expenses if the expenses exceed $500).[4]

B. The adjustments related to partnerships and fiduciaries.[5]

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[2] This deduction helps prevent triple taxation of dividend income and only occurs if a corporation owns shares in another corporation.

[3] Corporations are not required to add back any corporate income tax refund that they received in the tax year though Section 143.121.2a does require. DOR believes the section was from a transition period after coupling with the federal IRC.

[4] Section 143.121.2b, RSMo. This addition appears on Form MO-1120, page 2, part 1, lines 1a and 1b. Line 1b is the deduction for related expenses which exceed $500. Form MO-1120 is included as Appendix B.

C. The net operating loss modification. This section ensures that when corporations deduct their net operating losses, they do not end up with a negative number for their Missouri taxable income.[6]

D. The Missouri depreciation basis adjustment.[7][8]

Subtractions to Federal Taxable Income

A. Interest or dividends on obligations of the United States. This amount is reduced by related expenses if the expenses were over $500.

B. Federally Taxable, Missouri exempt obligations- bonds bought from MoHELA. If the income used to buy the bonds were included in federal taxable income, then they are exempt from Missouri taxation and can be deducted from Missouri taxable income.[9]

C. The portion of any gain resulting from the adjusted basis difference between federal and Missouri taxable income.[10]

D. Previously taxed income.[11]

E. Any state income tax refund from the previous tax year which was included in the taxpayer's federal taxable income.[12]

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[5] These adjustments are obtained by completing forms MO-1041 line 18 (fiduciaries) and MO-1065 line 18 (partnerships). Form MO-1120, page 2, part 1, line 2. Forms MO-1041 and MO-1065 are included as Appendix E and Appendix F respectively.

[6] Section 143.431.4, RSMo. Form MO-1120, page 2, part 1, line 4.

[7] Depreciation in tax terms has a different meaning than the meaning that is commonly known. Depreciation in this context means that taxpayers can deduct the expense(s) of tangible personal property (as long as it is used to produce business income) over a number of years.

[8] This addition to federal taxable income applies to property purchased between July 1, 2002 and July 1, 2003. The federal government allowed an additional depreciation allowance to be applied to the property purchased in that time period. Missouri, however, opted out of this provision and required businesses to add back the total depreciation expenses with the additional depreciation allowance to federal taxable income, and then later subtract the depreciation without the additional allowance in the subtraction section. Section 143.121.2c, RSMo. MO-1120, page 2, part 1, line 3.

[9] Section 173.440, RSMo. Form MO-1120, page 2, part 2, line 2.

[10] Section 143.121.3b, RSMo. Form MO-1120, page 2, part 2, line 3.

[11] Any income or gain which is included in federal taxable income but was included on previous MO-1120 form prior to January 1, 1993. Section 143.121, page 2, part 2, line 4.

F. A capital gain that was the result of a sale of a low-income housing project subsidized by the federal Department of Housing and Urban Development.[13]

G. Fiduciary and partnership adjustments.[14]

H. Missouri depreciation basis adjustment.[15]

I. Subtraction modification which offsets any addition modification of 1996, 1997, and 1998 tax years.[16]

J. Depreciation recovery on qualified property that is sold.

Federal Income Taxes

After adjusting for the modifications listed above, the taxpayer must determine and deduct the eligible amount of federal income taxes paid for the tax year. This amount is determined by first adding the federal tax as determined on federal form 1120, Schedule J, line 11 or federal form 1120A, part 1, line 5 to the amount of taxes paid to a foreign country as determined on federal form 1120, Schedule J, line 6a. These two amounts[17] are added together and then multiplied by 50%.[18]

If the taxpayer was part of a consolidated federal return and files a separate Missouri return, the taxpayer must determine the amount of federal taxable income attributable to the company and divide this number by the total federal taxable incomes of the

[12] Section 143.121.3e, RSMo. Form MO-1120, page 2, part 2, line 5.
[13] Section 135.357, RSMo. Form MO-1120, page 2, part 2, line 6.
[14] These adjustments are obtained by completing forms MO-1041 line 19 (fiduciaries) and MO-1065 line 19 (partnerships). Form MO-1120, page 2, part 2, line 7.
[15] This subtraction is directly related to Additions to Federal Taxable Income, letter D and the corresponding endnotes. Section 143.121.3g, RSMo. MO-1120, page 2, part 1, line 8.
[16] Section 143.121.2d, RSMo. Form MO-1120, page 2, part 2, line 9.
[17] Section 143.171.3. Form MO-1120, page 2, part 3, lines 1 and 2 respectively.
[18] The product is then entered on Form MO-1120, page 2, part 3, line 3.

companies listed on the federal return.[19] This total of taxes paid to the federal government is then subtracted from the balance of Missouri taxable income that was the result after all modifications mentioned earlier were made.

Apportionment Methods[20]

Most Missouri corporations can choose between two different apportionment methods: single-sales factor apportionment or three factor apportionment (corporations will choose the method most economical for them). Industry specific corporations are allowed to use a third unique apportionment method.

The single sales factor apportionment is calculated by adding the amount of sales wholly within Missouri[21] with half of the amount of sales partly within and partly without Missouri. This amount, representing the amount of income attributable to Missouri, is then divided by the total amount of income derived from all sources (Missouri sales, partly Missouri sales and non-Missouri sales. If the corporation elected to use this apportionment method and did not have any wholly passive investment income from outside of Missouri, then the resulting number is the portion of income attributable to Missouri.

If, however, a corporation should have wholly passive investment income from outside Missouri, then the partial Missouri income from all sources (Missouri taxable income + federal income tax paid + net operating loss) less the dividends from a non-Missouri payor as well as the allocation of wholly passive investment income from

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[19] This number, expressed as a percentage, is then multiplied by the product that was listed on Form MO-1120, page 2, part 3, line 3 and then reported on line 6 of the same form, same page and same part as well as on Form MO-1120, page 1, line 7.
[20] Jeff Craver testified on this subject at a Joint Committee on Tax Policy hearing on December 5, 2005. His testimony stated that Missouri was "ahead of the curve" in this portion of our tax policy because Missouri allows corporations to choose whichever apportionment method works best for that taxpayer.
[21] Entered on Form MO-MS, page1, part 1, line 1. Form MO-MS is included as Appendix B.

outside Missouri is equal to the apportionable income from Missouri. The result is then divided by the single sales apportionment fraction obtained earlier to reach partial Missouri taxable income. The partial Missouri taxable income from Missouri sources is divided by the partial Missouri taxable income from all sources to reach the portion of income attributable to Missouri.

Corporations may also elect to use the three factor apportionment method instead. The three factors used to determine Missouri taxable income are property, wages, and sales. Property includes land, depreciable assets, inventory and supplies, net rent (multiplied by 8) as well as any other property not previously mentioned. Numbers are reported for Missouri as well as the total value of property within and outside of Missouri. The Missouri numbers are divided by the total value of property that the corporation has everywhere resulting in a percentage.

Wages are the amount of money paid to employees. These are reported similarly as for property (Missouri as well as total everywhere- Missouri wages are divided by the total for everywhere to determine the percentage of income apportionable to Missouri).

Next, the third factor, the total amount of sales attributable to Missouri must be determined. This is determined by adding the sales delivered or shipped to Missouri purchasers from outside Missouri as well as from within Missouri, and then subtracting the sales shipped from Missouri to either the United States government or purchasers in a state where the taxpayer would not be taxable. Finally, all other gross receipts are added. This allows the taxpayer to figure the amount of sales attributable to Missouri and then dividing that number by the total amount of sales attributable to all sources. This gives the taxpayer a third percentage.

The three different percentages are then averaged to obtain the percentage of federal taxable income apportionable to Missouri. However, if the corporation has any non-business income[22] then the taxpayer is eligible to subtract that income from their Missouri taxable income in a method very similar to that used to subtract out the wholly passive investment income from non-Missouri sources mentioned previously. First Missouri taxable income[23] is added to both the federal income tax paid[24] and the net operating loss[25] to obtain the Partial Missouri Taxable Income from all sources.[26] Then the corporation can subtract out the non-business income to obtain the apportionable income from all sources. This apportionable income from all sources is then multiplied by the apportionment factor mentioned earlier (the average of the three percentages derived from the three factors) to obtain the apportioned Missouri income. The non-business income derived from Missouri sources is then added to the apportioned Missouri income resulting in partial Missouri taxable income from Missouri sources. This number then is divided by the partial Missouri taxable income from all sources to obtain the percentage of income apportionable to Missouri.[27]

A third method of determining income apportioned to Missouri is available to specific industries: transportation, railroad, interstate bridge, or telephone and telegraph

[22] Non-business income is determined by completing Form MO-NBI. Non-business income is generally any income that is generated from a source that is not related to the business- i.e. a grocery store owning a building in a state other than Missouri and using space in the building for administrative purposes but then renting out space in the building to other businesses or entities. This income would be non-business income and is eligible to be subtracted from Missouri taxable income.

[23] Missouri taxable income is the number on Form MO-1120, page 1, line 8.

[24] This is the number on Form MO-1120, page 1, line 7.

[25] This number can be found on the federal form 1120, line 29a and should be inserted on Form MO-MS, page 2, line 7.

[26] This number is on Form MO-MS, page 2, line 8.

[27] This number is entered on both Form MO-MS, page 2, line 14 and Form MO-1120, line 9.

industries.[28] This apportionment method takes the miles that each industry has in Missouri and divides it by the total miles of the corporation. The resulting percentage is the apportionment percentage used to derive Missouri income. A corporation may also petition the director of revenue to use an alternate apportionment method (the director of revenue must approve of this method before it is utilized).[29]

Economics of Apportionment Methods[30]

The method for determining the portion of income derived from a specific source varies from state to state. The apportionment method of each state is an important factor in a corporation's decision in determining a location. If the corporation already exists and a state is contemplating corporate income tax reform, it is very possible for a corporation to favor one apportionment method in a particular state while favoring a different one in another state depending on the allocation of the corporations' resources and sales.

For example, take General Motors which is based is Michigan. Because of their high value of property and wages in Michigan, it is more economic for GM to favor a single sales apportionment method for the state of Michigan; they would only be taxed based on the income derived from the number of sales that they had in the state of Michigan. However, GM may favor a three factor apportionment method in the state of Illinois because they would have less value in property and less money spent in the form of wages. Missouri is unique in the fact that it allows corporations the choice of choosing

[28] Sections 143.451, subsections 3, 4, 5, and 6, RSMo
[29] This authority is outlined in section 143.461.2, RSMo
[30] More general information on apportionment formulas, states' corporate income tax rates, and corporate income taxes in general can be found in a CRS report submitted to the Library of Congress. The report is included as Appendix H. The specific apportionment formulas for each state are listed on page 9 of the report.

which apportionment method is best for them: the single sales factor method or the three factor method. Corporations will choose whichever method will give them the least amount of tax liability.

Missouri Dividends Deduction

In some cases, corporations may own stock in other corporations. If the company in which the corporation owns stock is successful, the corporation may receive income in the form of dividends from that business. To the extent that these dividends are included in federal taxable income, corporations are allowed to deduct the income that they receive from the dividends that come from a Missouri source.[31]

Enterprise Zone or Rural Empowerment Zone Income Modification

Missourians are allowed to exempt one half of their Missouri taxable income which was derived from a revenue producing business (defined in Section 135.200.d.6, RSMo) operated in an enterprise zone or rural empowerment zone. Should the business be a residential property, the taxpayer may elect to take a $50 credit against their Missouri income tax liability for each bedroom in the residential business.[32]

The resulting number after accounting for all of the modifications listed above is the taxpayer's Missouri taxable income.

[31] Section 143.431.2, RSMo. Form MO-1120, page 1, line 10.
[32] This amount must be approved by the Department of Economic Development.

Tax

Rate

After determining Missouri taxable income, the corporation then must multiply the number by the applicable tax rate. In this case, the rate is a flat rate of 6.25%.[33]

Recapture of a Missouri Low Income Housing Credit

Should a corporation have been rewarded a Missouri Low Income Housing Tax Credit but then fails to meet the requirements of the project, Missouri has the ability to recapture the amount of money that they awarded. That money owed to Missouri is then collected at this point.

Corporation Franchise Tax[34][35]

Missouri corporations are required to pay an additional tax, the franchise tax, for the privilege of conducting business in Missouri. To compute the franchise tax, the corporation must first determine whether the par value of the outstanding stock[36] or the value of their assets have a value of $1,000,000 or more in the state of Missouri. If the corporation does not have assets in that amount or a greater amount, then the corporation is exempt from this particular tax and must report that fact to the director of revenue by checking box A on Form MO-1120. However, if a corporation does have assets (including outstanding stock and surplus value) of more than $1,000,000 in the state of

[33] Section 143.071.2, RSMo

[34] At a December 5, 2005 Joint Committee on Tax Policy hearing, Jeff Craver of the Missouri Chamber of Commerce testified in regards to the corporate franchise tax stating that the tax is double taxation because it is a tax on both income and property which has already been taxed previously.

[35] This tax is also applies to financial institutions and taxes the income of such businesses.

[36] Should the corporation not have a par value for its stock, then $5.00 or its actual value shall be substituted for each share of outstanding stock, whichever is the higher of the two numbers.

Missouri, then they must pay a tax of 1/30 of 1% to the state of Missouri on whatever that value may be.[37]

Corporations with stock and surplus property exclusively in Missouri must fill out lines 1, 2, 6a, and 7 on Form MO-FT.[38] Line 1 on Form MO-FT expresses the par value of issued and outstanding stock. Line 2 on the same form shows the amount of assets the corporation has less the investments in and advances to subsidiaries[39] of the corporation where more than 50% is owned by the corporation.

Lines 3-5 on Form MO-FT are to be filled in by corporations that have stock and assets in Missouri as well as outside of Missouri. The total of accounts receivable, inventories, and land and fixed assets for Missouri is divided by the total of the same for everywhere to reach a percentage expressed as a decimal. The total amount of assets is then multiplied by this decimal to obtain a value for assets apportioned to Missouri.

The base of the tax for corporations with all assets in Missouri is the greater of the amount of the par value of outstanding stock held in Missouri or the assets that the corporation has in Missouri. The base of the tax for corporations with assets both within and outside of Missouri is determined by the greater of: the par value of stock in Missouri or the amount of assets the corporation has in Missouri.[40] After the base of the tax is

[38] A copy of this form, Form MO-FT, is included as Appendix C.
[39] The subsidiary must be a corporation as well.
[40] It should be noted that Section 147.010.1, RSMo, the section which outlines the base and rate of the corporate franchise tax, is slightly misleading. The wording reads "For all taxable years beginning on or after January 1, 2000, the annual franchise tax shall be equal to one-thirtieth of one percent of the corporation's outstanding shares and surplus if the outstanding shares and surplus exceed one million dollars." The misleading part of the wording is that it states the par value of the outstanding shares **and** surplus is the base of the corporate franchise tax implying that these two amounts should be added together to determine the base. However, this would be counting the value of the corporation nearly twice what it is worth since stock represents the value of the company which already includes its assets. The Department of Revenue makes this distinction and levies the corporate franchise tax on the greater of the two amounts.

determined, the rate of 1/30 of 1% is applied to the base resulting in the corporate franchise tax liability. This amount is then added to corporate income tax liability.[41]

Credits or Payments

Once the total tax due is figured, then corporations can subtract the total of any credits or payments that they have already received or made.

Tax Credits

Corporations must complete form MO-TC[42] and submit it with their Form MO-1120. Tax credits diminish income tax liability and act as a payment toward taxes due.

Payments

Each quarter (on April 15, June 15, September 15, and December 15) corporations must submit to the Department of Revenue estimated tax payments already made to the state of Missouri. The total of all four estimated tax payments should be representative of the tax liability expected to be incurred in the tax year. The total of these estimated payments made for the tax year is then added together (included is any overpayments applied from the previous year as well as any payments made with Form MO-7004). Also included is any adjustments made from an amended return. The total of payments and credits are then added together and reported on Form MO-1120, page 1, line 23.

[41] S Corporations with assets of $1,000,000 or more must file Form 1120S (which is included as Appendix N) and MO-FT (which is included as Appendix D) and pay the franchise tax accordingly.
[42] This form is included as Appendix I.

Refund or Tax Due

If the total amount of payments and credits is greater than the amount of tax due, then the corporation has overpaid. The overpayment can be applied to the next filing period[43] or can be donated to the trust funds designated on the tax form or any of the charitable organizations[44] eligible to receive such funds.[45] Any amount left over is eligible to be refunded to the corporation.[46]

If the total tax due exceeds the amount of payments and credits, then the corporation underpaid and the amount of underpayment is due. Corporations should include applicable interest[47] and penalties[48] along with the overpayment. This final number represents the total due.[49]

[43] Form MO-1120, page 1, line 26.
[44] Form MO-1120, page 1, line 25a-i.
[45] A description of the trust funds and charitable organizations are included as Appendix J.
[46] This refund is entered on Form MO-1120, page 1, line 27.
[47] An annual interest rate of 7% is levied on underpayments.
[48] A late payment of 5% per month is levied on corporations for their failure to file, while a penalty with an annual interest of 5% is levied on late payments.
[49] This number should be entered on Form MO-1120, page 1, line 30.

Corporation Income Tax

Like the tax on individual income, the Missouri corporate income tax became effective January 1, 1917. The original tax rate was the same as that on individuals, a flat rate levy of one-half percent. The enabling legislation also defined all major tax items.

Concomitant with the changes in the individual tax, the Missouri corporation tax was redefined in terms of federal statutes effective January 1, 1973. The base for the corporation income tax is Missouri taxable income, which is defined as U.S. taxable income attributable to Missouri less certain deductions. Exhibit 6 details the relationships involved. Those items designated with a **T** are considered *tax expenditures.*

The corporation income tax, by its very nature, is a complicated device. As such it encompasses several significant provisions that are not encountered by its individual counterpart.

The first of these provisions is the net operating loss provisions. These permit a corporation to carry back operating losses to offset taxable income in prior years. If the income in these years is insufficient, the remaining losses may be carried forward. Another is the provision made for capital recovery. Of all the special provisions provided to the corporate sector, none is more complicated or has been changed as often as those relating to depreciation.

Other provisions of the corporation tax laws are, like their individual counterparts, based on political and practical considerations. These include intercorporate dividend payments, the amortization of research and start-up costs, the treatment of foreign income and special depletion provisions made to oil, gas and other mineral industries.

A final issue involves the proper allocation of corporate profits between political subdivisions—international and interstate. Unlike most individuals, many corporations operate in more than one state or country. The allocation of income between such jurisdictions is neither theoretically straight forward nor mechanically easy. As a result, certain arbitrary rules and formulas have been developed to allocate the profits of multi-jurisdictional corporations. Obviously, this is of special interest in the case of interstate allocations.

Readers are again cautioned to view the revenue effects of the tax expenditures detailed in Exhibit 6 with some care. As previously mentioned, these may not accurately reflect the true costs of these subsidies. Further, as with the individual income tax expenditures, they cannot be aggregated in any meaningful manner.

Corporation Income Tax
by Calendar Year

2003 Rank: 4
2003 Tax Rate: 6.25%

	2001	2002	2003
Gross Receipts			
General Fund	381.3	394.9	329.1
Other	0.0	0.0	0.0
Tax Expenditures			
Exclusions	0.0	0.0	0.0
Deductions	52.9	63.9	NA
Credits	20.8	18.4	57.5

Figures in millions of dollars

Exhibit 6
Derivation of Missouri Taxable Income—Corporation

Gross Income	Gross profit Dividends **T** Interest Rents and royalties Net gain on sales or exchanges Other income
minus	
Deductions from Gross Income	Compensation Salaries and wages Repairs **T** Bad debts Rents Taxes Interest **T** Contributions **T** Amortization, depreciation and depletion Advertising Pension and profit-sharing plans Net operating loss deduction Dividends-received deduction **T** Organizational expense amortization Employee benefit programs Other costs
equals	
Federal Taxable Income	
plus	
Positive Adjustments	State and local income taxes State and local bond interest Partnership or fiduciary adjustments
minus	
Negative Adjustments	**T** Interest from exempt federal obligations **T** Interest on Missouri state and local obligations Reduction in gain due to basis difference Previously taxed income Amount of any state income tax refund included in federal taxable income Partnership or fiduciary adjustment
equals	
Missouri Adjusted Gross Income	
minus	
Deductions	**T** One-half of Federal income tax* **T** Foreign tax credit **T** Personal holding company tax **T** Recapture taxes **T** Alternative minimum tax **T** Environmental tax
equals	
Gross Missouri Taxable Income	Multiplied by appropriate allocation factors
equals	
Net Missouri Taxable Income	Multiplied by the effective tax rate or rates
equals	

Exhibit 6 (continued)
Derivation of Missouri Taxable Income—Corporation

Gross Tax Due Before Credits

less

Credits

- **T** Neighborhood assistance credit
- **T** New or expanded business facility credit
- **T** Development reserve credit
- **T** Wood energy credit
- **T** Agricultural unemployed persons credit
- **T** Seed capital credit
- **T** Enterprise zone credit
- **T** Small business incubator credit
- **T** Infrastructure development credit
- **T** Export finance credit
- **T** Low income housing credit
- **T** Affordable housing credit
- **T** Qualified research credit
- **T** Small business investment credit
- **T** Community bank investment credit
- **T** Higher education scholarship credit
- **T** Brownfield Tax Benefits Tax Credit
- **T** Business use incentives credit
- **T** Youth opportunities credit
- **T** Charcoal producers credit
- **T** Historic preservation credit
- **T** Maternity home credit
- **T** Domestic violence shelter credit
- **T** Sponsorship & mentoring credit
- **T** Film production credit
- **T** Wine & grape production credit
- **T** Advantage Missouri Program credit
- **T** Rebuilding communities tax credit
- **T** Missouri individual training account program credit
- **T** Transportation development credit
- **T** Agricultural product utilization contributor credit
- **T** Bank tax credit for S corp. shareholders
- **T** Dry fire hydrant credit
- **T** Family development account credit
- **T** New enterprise creation credit
- **T** New generation cooperative incentive credit
- **T** Remediation tax credit
- **T** Shared care credit
- **T** Disabled Access credit
- **T** Mature worker child care credit
- **T** Strategic initiative investment income credit
- **T** Rebuilding community/neighborhood preservation credit
- **T** Bank franchise credit
- **T** Demolition tax credit
- **T** Development tax credit

equals

Net Tax Due After Credits

**Prior to 1994 all federal income income taxes were deductible.*
T - *Tax expenditure*

Exhibit 7 - Part 1
Corporation Income Tax Expenditures - Missouri Statutes
1998-2008

		1998	1999	2000	2001*	2002	2003	2004^F	2005^F	2006^F	2007^F	2008^F
Deductions												
C.01	Federal Income and Other Taxes	44.2	37.1	55.5	50.0^F	48.0^F	52.0^F	55.0	58.0	60.0	63.0	NA
C.03	Enterprise Zone Modifications	2.8	2.9	2.9	2.9	2.9	NA	NA	NA	NA	NA	NA
C.04	Brownfield Income Modification	•	•	•	•	•	NA	NA	NA	NA	NA	NA
C.05	Mutual Fund Modification	⁙	⁙	7.3	•	13.0	NA	NA	NA	NA	NA	NA
Missouri Credits												
D.01	Neighborhood Assistance	1.5	1.3	1.3	0.15	0.28	1.68	2.19	2.27	2.35	2.43	2.52
D.02	New or Expanded Business	4.0	4.0	4.2	0.46	1.74	4.45	3.68	3.68	3.68	3.68	3.68
D.03	Development Reserve	•	•	•	x	0.06	0.11	0.11	0.12	0.12	0.13	0.13
D.04	Enterprise Zone	11.0	9.1	7.5	0.61	2.53	6.56	6.54	6.54	6.54	6.54	6.54
D.05	Wood Energy Producers	0.3	0.6	1.4	1.36	0.14	0.50	0.50	0.50	0.50	0.50	0.50
D.06	Seed Capital	0.1	0.1	0.3	x	0.01	0.15	0.15	0.15	0.15	0.15	0.15
D.08	Affordable Housing	0.7	3.7	1.6	0.19	0.01	1.08	1.25	1.11	0.99	0.88	0.78
D.09	Export Finance	•	•	•	x	x	x	x	x	x	x	x
D.10	Low Income Housing	3.4	4.2	0.9	2.75	2.66	2.66^F	2.90	3.13	3.37	3.63	3.92
D.11	Small Business Incubator	•	0.0	•	0.03	x	0.01	0.04	0.04	0.04	0.04	0.04
D.12	Infrastructure Development	22.7	1.6	4.1	1.42	0.36	1.41	4.22	5.06	6.08	7.29	8.75
D.13	Qualified Research Expense	1.5	1.2	1.2	0.01	1.04	1.38	5.89	5.89	5.89	5.89	5.89
D.14	Small Business Investment	•	0.1	•	x	x	x	x	x	x	x	x
D.15	Community Bank Investment	0.1	•	•	0.01	x	0.15	0.15	0.17	0.18	0.20	0.22
D.16	Higher Education Scholarship	•	•	•	x	x	x	x	x	x	x	x
D.17	Brownfield Tax Benefits	•	•	•	x	x	0.01	0.08	0.17	0.33	0.67	1.34
D.18	Business Use Incentives (BUILD)	0.4	0.6	2.5	1.92	x	5.23	5.23	5.23	5.23	5.23	5.23
D.19	Youth Opportunities	0.3	0.1	0.1	0.13	0.17	0.28	0.33	0.34	0.34	0.34	0.34
D.20	Charcoal Producers	•	•	•	0.09	0.03	0.15	0.15	0.15	0.15	0.15	0.15
D.21	Historic Preservation	2.3	2.3	2.6	1.02	0.42	11.06	12.02	10.80	9.71	8.73	7.84
D.22	Maternity Home	•	•	•	0.06	0.02	0.02^F	0.01	0.01	0.01	0.01	0.01
D.23	Domestic Violence Shelter	•	•	•	0.01	0.01	0.01^F	0.01	0.01	0.02	0.02	0.02
D.24	Sponsorship & Mentoring	•	•	•	x	x	x	x	x	x	x	x
D.25	Film Production	⁙	•	•	0.07	x	x	x	x	x	x	x
D.26	Wine & Grape Production	⁙	0.1	•	x	x	x	x	x	x	x	x
D.27	Advantage Missouri Program	⁙	•	•	x	x	x	x	x	x	x	x
D.28	Rebuilding Communities	4	0.1	1.8	0.02	0.02	0.23	0.39	0.39	0.39	0.39	0.39
D.29	Missouri Individual Training Account Program	⁙	•	•	x	x	x	x	x	x	x	x
D.30	Transportation Development	⁙	•	•	x	x	0.01	0.02	0.02	0.01	0.01	0.01
D.34	Agricultural Product Utilization Contributor	⁙	•	•	0.54	0.35	x	x	x	x	x	x
D.35	Bank Tax Credit for S Corp Shareholders	⁙	•	•	x	x	x	x	x	x	x	x

See Appendix IV for information on D.31, D.32, and D.33.

*Figures in millions of dollars; ⁙ = Not applicable • = Less than \$50,000, **x** = Less than \$5,000; F = Forecasted numbers; NA = Not available*
**2001 figures are provisional subject to significant variations due to timing of credit redemption.*

Exhibit 7 - Part 1 (continued)
Corporation Income Tax Expenditures - Missouri Statutes
1998-2008

Missouri Credits		1998	1999	2000	2001*	2002	2003	2004[F]	2005[F]	2006[F]	2007[F]	2008[F]
D.36	Dry Fire Hydrant	⁙	•	•	x	x	x	x	x	x	x	x
D.37	Family Development Account	⁙	•	•	x	x	x	0.01	0.01	0.01	0.02	0.03
D.38	New Enterprise Creation	⁙	•	•	x	x	0.61	0.52	0.59	0.65	0.73	0.82
D.39	New Generation Cooperative Incentive	⁙	•	•	0.10	0.47	0.36[F]	0.43	0.52	0.62	0.75	0.90
D.40	Remediation Tax Credit	1.4	1.4	6.4	0.63	0[1]	11.49	14.93	14.61	14.29	13.98	13.67
D.42	Shared Care	⁙	⁙	•	x	x	x	x	x	x	x	x
D.43	Disabled Access	x	x	x	x	x	x[F]	x	x	x	x	x
D.44	Mature Worker Child Care	⁙	⁙	•	x	x	x	x	x	x	x	x
D.45	Strategic Initiative Investment Income Tax Ref.	⁙	•	2.0	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
D.46	Neighborhood Preservation Act	⁙	•	•	0.10	0.14	0.32	0.73	0.73	0.73	0.73	0.73
D.47	Bank Franchise	⁙	⁙	•	0.22	0.68	0.40[F]	0.40	0.40	0.40	0.40	0.40
D.48	Demolition Tax Credit	⁙	⁙	x	x	x	x	x	x	x	x	x
D.49	Development Tax Credit	⁙	⁙	⁙	x	x	x	x	x	x	x	x
D.50	Special Needs Adoption Credit	x	x	0.02	0.08	x	x	x	x	x	x	x

Figures in millions of dollars; ⁙ = Not applicable • = Less than $50,000, x = Less than $5,000; F = Forecasted numbers
**2001 figures are provisional subject to significant variations due to timing of credit redemption.*
[1]*This credit was not available for tax year 2002.*

Exhibit 7 - Part 2
Corporation Income Tax Expenditures - Federal Statutes
1998-2008

	1998	1999	2000	2001	2002	2003	2004[F]	2005[F]	2006[F]	2007[F]	2008[F]
Exclusions											
A.01 Exempt Organizations	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
A.02 Credit Unions	4.0	4.8	2.8	2.9	3.2	3.3	3.6	3.8	4.0	4.3	4.6
A.03 State and Local Interest (GO)	33.0	33.5	28.3	50.9	52.5	54.1	55.7	57.4	59.1	60.8	62.6
A.04 State and Local Interest (Other)	7.0	6.2	5.4	9.4	9.7	10.1	10.2	10.6	11.1	11.3	11.6
A.11 Utility Conservation Subsidies	•	•	NA	NA	NA	NA	NA	NA	NA	NA	NA
Deductions											
A.06a Accelerated Depreciation[1]											
Rental Property	0.6	2.0	1.9	0.6	0.2	-0.2	-0.7	-1.3	-2.1	-2.7	-3.3
Other Property	6.8	9.7	13.0	-14.1	-18.6	-12.1	-43.6	-61.4	-82.4	-105.8	-129.3
Machinery and Equipment	120.2	164.0	148.3	335.7	217.8	116.7	-275.6	-242.1	-222.5	-206.4	-191.3
A.06c Percentage-Cost Depletion											
Gas and Oil	•	•	•	•	•	•	•	•	•	•	•
Other Fuels	•	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-Metallic Minerals	0.8	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2
A.06d Business Start-Up Costs	0.7	0.7	0.4	0.7	0.9	1.0	1.1	1.1	1.2	1.2	1.2
A.06e Research/Development Costs	10.6	9.7	9.6	13.5	17.8	22.4	27.4	32.3	34.6	35.5	36.4
A.06f Mineral Exploration/Development											
Gas and Oil	•	•	•	•	•	•	•	•	•	•	•
Other Fuels	•	•	•	•	•	•	•	•	•	•	•
Non-Metallic Mineral	•	0.1	•	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
A.06g Farm Cash Accounting Rules											
Expensing Certain Costs	•	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Multi-Year Production Costs	•	•	•	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
A.06h Charitable Contributions	9.5	12.2	9.7	20.4	20.0	20.3	23.8	23.3	23.1	23.1	23.1
A.06i Reserve for Bad Debts	0.2	0.2	0.2	•	•	•	•	•	•	•	•
A.06l Foreign Sales Corporations											
Deferral of Income for Disc/FSC	20.7	22.8	NA	NA	NA	NA	NA	NA	NA	NA	NA
Extraterritorial Income Exclusion	x	x	21.7	39.8	42.5	45.5	48.6	51.9	55.6	59.4	63.3
A.06n Insurance Companies	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
A.06o Blue Cross & Blue Shield	0.9	0.8	0.9	1.0	1.2	1.1	1.1	1.0	1.1	0.9	0.8
A.06p Alaskan Native Corporation	•	•	•	NA	NA	NA	NA	NA	NA	NA	NA
A.06q Shipping Companies	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
A.06s Property Installment Sales	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0

[1] *Beginning in 2003 the OMB changed the calculation of the accelerated depreciation tax expenditure. See Appendix XI for further explanation.*

Figures in millions of dollars; NA = Not available; x = Not applicable • = Less than $50,000; F = Forecasted numbers

Exhibit 7 - Part 2 (continued)
Corporation Income Tax Expenditures - Federal Statutes
1998-2008

		1998	1999	2000	2001	2002	2003	2004F	2005F	2006F	2007F	2008F
Deductions												
A.06t	Timber Growing Costs	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
A.06u	Mining Reclamation	•	•	•	•	•	•	•	•	NA	NA	NA
A.06v	Historic Structures	1.0	1.0	0.8	1.3	1.4	1.5	1.6	1.7	1.7	1.8	1.9
A.06w	Removal of Architectural Barriers	•	•	•	•	•	•	•	•	•	•	•
A.06x	Life Insurance	2.4	2.9	8.0	14.6	14.9	15.1	15.4	15.6	15.8	16.1	16.3
A.07	Foreign Corporations											
A.07a	U.S. Controlled Foreign Corporations	33.1	36.3	31.8	57.8	61.5	65.2	69.3	73.7	78.8	84.3	89.7
A.07d	Inventory Allocation Rules	6.0	12.7	6.8	12.1	12.7	13.4	14.0	14.8	15.5	16.3	17.2
A.08a	Exemption of Certain Insurance Companies	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.9
A.08c	Mutuals and Cooperative Income	0.3	0.4	0.3	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
A.08d	Special ESOP Rules	4.9	5.5	4.7	11.0	11.6	12.1	12.8	13.5	14.2	14.9	15.7
A.08e	Deferred Taxes for Financial Firms-Foreign Income	3.0	3.8	4.1	6.2	6.5	6.7	6.9	7.1	3.0	•	•
A.08f	Deferral of Gain on Sale of Farm Refiners	•	•	•	•	•	•	•	•	•	0.1	0.1
A.09	Expensing of Certain Small Investments	2.3	3.7	2.6	-1.2	-0.7	1.1	4.6	5.9	4.8	4.3	3.8
A.10	Empowerment Zones	0.9	0.5	0.5	1.8	2.5	2.5	2.6	2.9	3.2	3.5	3.7
A.11	Exclusion of Conservation Subsidies	•	•	NA	NA	NA	NA	NA	NA	NA	NA	NA
A.13	Expensing Environmental Remediation Costs	0.4	0.6	0.3	0.3	0.3	0.1	•	•	•	•	•
A.14	Employer-Provided Supplementary Unemployment Benefits	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Figures in millions of dollars; NA = Not available; x = Not applicable • = Less than \$50,000; F = Forecasted numbers

Reset Form | Print Form

CORPORATION NAME

NUMBER AND STREET

CITY OR TOWN, STATE, ZIP CODE

MITS/MO I.D. NUMBER	CHARTER NUMBER	FEDERAL I.D. NUMBER

MAIL TO:
Balance Due
Missouri Department of Revenue
P.O. Box 3365
Jefferson City, MO 65105-3365

MAIL TO:
Refund or No Amount Due
Missouri Department of Revenue
P.O. Box 700
Jefferson City, MO 65105-0700

FORM MO-1120

Missouri Corporation **INCOME TAX** Return for 2005	Missouri Corporation **FRANCHISE TAX** Return for 2006
Beginning ______, 20 ___	Beginning ______, 20 ___
Ending ________, 20 ___	Ending ________, 20 ___

Balance Sheet Date (MMDDYY)

SOFTWARE VENDOR CODE (Assigned by DOR) **002**

Check Applicable Boxes — **Attach copy of Federal Return, pages 1–4**

- ☐ Consolidated MO Return
- ☐ Consolidated Federal/ Separate Missouri Return
- ☐ Amended Return
- ☐ Name Change
- ☐ Address Change
- ☐ Final Corporate Income Tax Return
- ☐ Bankruptcy
- ☐ 990C
- ☐ 990T

☐ A. Check this box if your assets in Missouri (Schedule MO-FT, Line 6a), or apportioned to Missouri (Schedule MO-FT, Line 6b) do not exceed $1,000,000. You do not owe franchise tax. **If your assets do exceed the $1,000,000 threshold, you must complete and attach Schedule MO-FT and enter the franchise tax due on the Form MO-1120, Line 15 below.**

☐ B. Return filed for **BOTH** (income and franchise)
☐ C. Return filed for **INCOME** tax **only**
☐ D. Return filed for **FRANCHISE** tax **only**

COMPUTATION OF INCOME TAX

		Line	Amount
1.	Federal Taxable Income from Federal Forms 1120, Line 30 or 1120A, Line 26	1	00
2.	Corporation income tax from Missouri, or other states, their subdivisions, and District of Columbia deducted in determining federal taxable income	2	00
3.	Missouri modifications — Additions (complete Page 2, Part 1)	3	00
4.	Total additions — Add Lines 2 and 3	4	00
5.	Missouri modifications — Subtractions (complete Page 2, Part 2)	5	00
6.	Balance — Line 1 plus Line 4 less Line 5	6	00
7.	Federal Income Tax — current year (complete Page 2, Part 3)	7	00
8.	Missouri Taxable Income — all sources — Line 6 less Line 7	8	00
9.	Missouri Taxable Income — if all Missouri income, repeat Line 8. If not, complete Schedule MO-MS and enter apportionment method chosen ______, and the applicable % ___ . ___ Multiply Line 8 by the percentage	9	00
10.	Missouri Dividends Deduction (see instructions before entering an amount)	10	00
11.	Enterprise Zone or Rural Empowerment Zone Income Modification	11	00
12.	Missouri Taxable Income — Line 9 less Line 10 and Line 11	12	00

TAX

		Line	Amount
13.	Corporation Income Tax — 6.25% of Line 12	13	00
14.	Recapture of Missouri Low Income Housing Credit (attach a copy of Federal Form 8611) (see instructions)	14	00
15.	Corporation Franchise Tax (Complete Schedule MO-FT and attach balance sheet)	15	00
16.	Total Tax — Add Lines 13, 14, and 15	16	00

CREDITS/PAYMENTS

		Line	Amount
17.	Tax credits — (attach Form MO-TC)	17	00
18.	Estimated tax payments (include approved overpayments applied from previous year)	18	00
19.	Payments with Form MO-7004	19	00
20.	**AMENDED RETURN ONLY:** Tax paid with (or after) the filing of the original return	20	00
21.	Subtotal — Add Lines 17 through 20	21	00
22.	**AMENDED RETURN ONLY:** Overpayment, if any, as shown on original return or as later adjusted	22	00
23.	Total — Line 21 less Line 22	23	00

REFUND OR TAX DUE

		Line	Amount
24.	If Line 23 is greater than Line 16, enter OVERPAYMENT here	24	00
25.	Amount remitted or amount of tax overpayment to be contributed to the trust funds listed to the right. Place the total amount contributed on Line 25i.	25i	00
26.	Overpayment to be applied to next filing period	26	00
27.	Overpayment to be refunded — Line 24 less Lines 25i and 26 **REFUND**	27	00
28.	If Line 23 is less than Line 16, enter UNDERPAYMENT here	28	00
29.	Enter total amount on Line 29 — Interest $ ___ Penalty $ ___ Form MO-2220 $ ___	29	00
30.	TOTAL DUE — Add Lines 28 and 29 (U.S. funds only) **TOTAL DUE**	30	00

Line 25 trust funds:

a	b	c	d	e	f	g	h
Children's	Veterans	Elderly Home Delivered Meals	Missouri National Guard	Workers' Memorial	Childhood Lead Testing	Additional Trust Fund Code (See Instructions) ___ | ___	Additional Trust Fund Code (See Instructions) ___ | ___

If you pay by check, you authorize the Department of Revenue to process the check electronically. Any check returned unpaid may be presented again electronically.

SIGNATURE

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which he/she has any knowledge. As provided in Chapter 143, RSMo, a penalty of up to $500 shall be imposed on any corporation which files a frivolous return.

I **authorize** the Director of Revenue or delegate to discuss my return and attachments with the preparer or any member of his/her firm, or if internally prepared, any member of the internal staff. ☐ YES ☐ NO

SIGNATURE OF OFFICER **(REQUIRED)**	TITLE OF OFFICER	PHONE NUMBER	DATE SIGNED

PREPARER'S SIGNATURE (INCLUDING INTERNAL PREPARER)	PREPARER'S FEIN, SSN, OR PTIN	PHONE NUMBER	DATE SIGNED

DOR ONLY
☐ S
☐ E
☐ B
☐ F

This form is available upon request in alternative accessible format(s).

PART 1 — MISSOURI MODIFICATIONS — ADDITIONS

1a. State and local bond interest (except Missouri)	1a	00		
1b. Less: related expenses (omit if less than $500). Enter Line 1a less Line 1b on Line 1	1b	00	1	00
2. Fiduciary and partnership adjustment (enter share of adjustment from Form MO-1041, Page 2, Part 1, Line 18 or Form MO-1065, Line 18)			2	00
3. Missouri depreciation basis adjustment (Section 143.121.2(c) RSMo)			3	00
4. Net operating loss modification (Section 143.431.4, RSMo) (Do not enter NOL carryover)			4	00
5. Total — Add Lines 1 through 4. Enter here and on Page 1, Line 3			5	00

PART 2 — MISSOURI MODIFICATIONS — SUBTRACTIONS

1a. Interest from exempt federal obligations (must attach a detailed schedule)	1a	00		
1b. Less: related expenses (omit if less than $500). Enter Line 1a less Line 1b on Line 1	1b	00	1	00
2. Federally taxable — Missouri exempt obligations			2	00
3. Reduction in gain due to basis difference (See 12 CSR 10-2.020 and Section 143.121.3(b) RSMo)			3	00
4. Previously taxed income			4	00
5. Amount of any state income tax refund included in federal taxable income			5	00
6. Capital gain exclusion from the sale of low income housing project			6	00
7. Fiduciary and partnership adjustment (enter share of adjustment from Form MO-1041, Page 2, Part 1, Line 19 or Form MO-1065, Line 19)			7	00
8. Missouri depreciation basis adjustment (Section 143.121.3(g) RSMo)			8	00
9. Subtraction Modification offsetting previous Addition Modification on 1996, 1997, and 1998 Tax Years (Section 143.121.2(d) RSMo)			9	00
10. Depreciation recovery on qualified property that is sold (Section 143.121.3 (h) RSMo)			10	00
11. Total — Add Lines 1 through 10. Enter here and on Page 1, Line 5			11	00

PART 3 — FEDERAL INCOME TAX — CURRENT YEAR — Consolidated Federal/Separate Missouri Return — See Instructions.

1. Federal tax (from Federal Form 1120, Schedule J, Line 11 or Federal Form 1120A, Part 1, Line 5)	1	00
2. Foreign tax credit (from Federal Form 1120, Schedule J, Line 6a)	2	00
3. Federal income tax — add Lines 1 and 2; **multiply the total by 50%;** and enter here and on Page 1, Line 7. **Consolidated federal/separate Missouri returns must complete Lines 4–6**	3	00
4. Numerator (the amount of separate company federal taxable income)	4	00
5. Denominator (enter the total positive separate company federal taxable income)	5	00
6. Divide Line 4 by Line 5. [.] Multiply by Line 3. Enter here and on Page 1, Line 7. (Consolidated federal/separate Missouri return filers must attach consolidated Federal Form 1120, Schedule J, and an income statement or summary of profit companies. **If information is not sent, the federal income tax deduction may be reduced to zero.)**	6	00

PART 4 — CORPORATE INCOME — REASON FOR AMENDMENT

Check one box indicating the reason for this amended Missouri return. The applicable Federal Form 1139, 1120X, 4549, 4549A, 870AD, and/or 5278 must be attached. This includes consolidated federal/separate Missouri filers. **NOTE: A separate amended Form MO-1120 must be filed for each reason.**

☐ A. MISSOURI CORRECTION ONLY ☐ B. FEDERAL CORRECTION ☐ C. LOSS CARRYBACK
☐ D. FEDERAL TAX CREDIT CARRYBACK ☐ E. IRS AUDIT (RAR) ☐ F. MISSOURI TAX CREDIT CARRYBACK*

*Enter on Part 5, Line 1 the first year that the credit became available.

DOR ONLY

PART 5 — LOSS CARRYBACK OR FEDERAL TAX CREDIT CARRYBACK — AMENDED RETURN ONLY

If a loss carryback or federal tax credit carryback is involved in this amended return, complete the following section. Consolidated federal/separate Missouri filers should report figures attributable to this separate Missouri return and attach a copy of the Federal Consolidated Form 1139 or 1120X showing the carryback or page 1 of the Federal Consolidated Form 1120 for the year of the loss to verify that only the separate company had the loss. Also, enclose a copy of the consolidated income statement for this year and the year of the loss. (If NOL or Missouri tax credit carryback, enter year that the credit first became available.)

1. Year of loss	1	M M D D Y Y
2. Total net capital loss carryback	2	00
3. Total net operating loss carryback	3	00
4. Federal income tax adjustment — Consolidated federal/separate Missouri filers must attach computations	4	00

Print Form

MISSOURI DEPARTMENT OF REVENUE

CORPORATION FRANCHISE TAX SCHEDULE

SCHEDULE

MO-FT

Attachment Sequence No. 1120-03 and 1120S-01

Schedule MO-FT must be filed with the Form MO-1120 or Form MO-1120S.

CORPORATION NAME	MITS/MO I.D. NUMBER	CHARTER NUMBER	FEIN NUMBER

FILE PERIOD BEGINNING (MMDDYY) 20 , ENDING 20

BALANCE SHEET DATE (MMDDYY)

Do your assets include an interest in a partnership and/or limited liability company? YES ☐ NO ☐

Has there been a change in your accounting period? YES ☐ NO ☐ If yes, state prior accounting period ___________________

Read instructions before completing this schedule.
NOTE: You cannot file a consolidated franchise tax return.

- Corporations having all assets within Missouri complete Lines 1, 2, 6a, and 7 **ONLY**.
- Corporations having assets both within and without Missouri complete all lines except 6a.

1. Par value of issued and outstanding stock (For no-par value stock, see instructions) **(not less than zero)**	1	00
2. Assets		
2a. Total assets **per attached balance sheet**	2a	00
2b. Less: Investments in and advances to subsidiaries over 50% owned (Attach Schedule MO-5071 or a schedule showing name of corporations, percentage of ownership, and amount)	2b	00
2c. Adjusted total (Line 2a less Line 2b)	2c	00

3. Allocation per attached balance sheet or schedule (See instructions.)		(A) MISSOURI		(B) EVERYWHERE
3a. Accounts receivable (net of allowance for bad debt)	3a	00	3a	00
3b. Inventories (net, book value)	3b	00	3b	00
3c. Land and fixed assets (net of accumulated depreciation)	3c	00	3c	00
3d. Total allocated assets (add Lines 3a, 3b, and 3c)	3d	00	3d	00

4. Missouri percentage for apportionment (Line 3d, Column A divided by Column B) Extend the apportionment percentage to six digits to the right of the decimal point.	4	
5. Assets apportioned to Missouri (Line 2c times Line 4)	5	00
6. Tax basis:		
6a. Corporations having all assets within Missouri (Line 2c or Line 1, whichever is greater)	6a	00
6b. Corporations having assets both within and without Missouri (Line 5 or the product of Line 1 times Line 4, whichever is greater.) If Line 6a or Line 6b is $1,000,000 or less, **STOP HERE** and **check Box A on Form MO-1120 or Box A on Form MO-1120S.**	6b	00
7. Tax Computation		
7a. Tax — 1/30th of 1% (.000333 of Line 6a or Line 6b)	7a	00
7b. Short periods (see instructions) — Line 7a x _______ / 12 (insert number of months in short period) = Prorated Tax Due	7b	00
7c. Tax due (Line 7a or Line 7b, whichever applies) Enter here and on Form MO-1120, Page 1, Line 15 or Form MO-1120S, Page 1, Line 15	7c	00

MISSOURI DEPARTMENT OF REVENUE
CORPORATION ALLOCATION AND APPORTIONMENT OF INCOME SCHEDULE

SCHEDULE
MO-MS

Attachment Sequence No. 1120-01

Reset Form | Print Form

DO NOT COMPLETE THIS SCHEDULE IF ALL INCOME IS FROM MISSOURI SOURCES.

CORPORATION NAME	MITS/MO I.D. NUMBER	CHARTER NUMBER	FEDERAL I.D. NUMBER

APPORTIONMENT ELECTION

• Missouri Statutes provide seven methods of determining Missouri taxable income from Missouri sources.

Check only ONE of the seven boxes and enter the method number and the percentage calculated on Form MO-1120, Line 9.

☐ Method One — MULTISTATE ALLOCATION AND THREE FACTOR APPORTIONMENT — Multistate Tax Compact — Section 32.200, RSMo — (COMPLETE PART 2)

☐ Method Two — BUSINESS TRANSACTION SINGLE FACTOR APPORTIONMENT — Section 143.451.2(2), RSMo — (COMPLETE PART 1)

Special Methods — **Attach Detailed Explanation**

☐ Three — Transportation — Section 143.451.3, RSMo

☐ Four — Railroad — Section 143.451.4, RSMo

☐ Five — Interstate Bridge — Section 143.451.5, RSMo

☐ Six — Telephone and Telegraph — Section 143.451.6, RSMo

☐ Seven — Other Approved Method — Section 143.461.2, RSMo. **Letter of Approval from the Director of Revenue must be attached.**

Note: For methods Three through Six, complete the information below, and enter the percentage on Form MO-1120, Line 9.

Missouri Miles		**Total Miles**		**Percent**
______	÷	______	=	. %

• **Round percentages on this form to three digits to the right of the decimal point, such as 12.345%.**

PART 1 — SINGLE FACTOR APPORTIONMENT METHOD SCHEDULE

1. Amount of sales wholly in Missouri	1		00
2. Amount of sales partly within and partly without Missouri	2		00
3. Amount of sales wholly without Missouri	3		00
4. Total amount — all sources — add Lines 1, 2, and 3	4		00
5. One-half of Line 2	5		00
6. Total amount Missouri — add Lines 1 and 5	6		00
7. Missouri single factor apportionment fraction — divide Line 6 by Line 4	7	.	%

STOP **NOTE: STOP HERE IF YOU DO NOT HAVE ANY WHOLLY PASSIVE INVESTMENT INCOME FROM OUTSIDE MISSOURI. ENTER SCHEDULE MO-MS, PART 1, LINE 7 ON FORM MO-1120, LINE 9.**

8. Missouri taxable income — all sources (Form MO-1120, Line 8)	8		00
9. Federal income tax (Form MO-1120, Line 7)	9		00
10. Net Operating Loss (from Federal Form 1120, Line 29a)	10		00
11. Partial Missouri taxable income — All sources — add Lines 8 through 10	11		00
12. Dividends from a non-Missouri payor	12		00
13. Allocation of wholly passive investment income from outside Missouri.	13		00
14. Apportionable Income (Line 11 less Line 12 and Line 13)	14		00
15. Partial Missouri taxable income — Missouri sources (Multiply Line 14 by Line 7)	15		00
16. Missouri income percentage (Divide Line 15 by Line 11 and enter on Form MO-1120, Line 9)	16	.	%

This form is available upon request in alternative accessible format(s).

SCHEDULE MO-MS

CORPORATION NAME	MITS/MO I.D. NUMBER	CHARTER NUMBER	FEDERAL I.D. NUMBER

PART 2 — THREE FACTOR APPORTIONMENT METHOD SCHEDULE

	TOTAL MISSOURI (a)	TOTAL EVERYWHERE (b)		PERCENT WITHIN MISSOURI (a) ÷ (b)
Land	00	00		
Depreciable assets	00	00		
Inventory and supplies	00	00		
Other (attach schedule)	00	00		
Net rent, times eight	00	00		
1. TOTAL PROPERTY	**00**	**00**	**1**	. **%**
2. TOTAL WAGES	**00**	**00**	**2**	. **%**
Sales delivered or shipped to Missouri purchasers:				
a) from outside Missouri	00			
b) from within Missouri	00			
Shipped from Missouri to:				
a) the United States Government	00			
b) purchasers in a state where taxpayer would not be taxable	00			
Other gross receipts	00			
3. TOTAL SALES	**00**	**00**	**3**	. **%**
4. Apportionment Factor — add Lines 1 through 3 and divide by number of factors present.			4	. %

STOP **NOTE: STOP HERE IF YOU DO NOT HAVE ANY NONBUSINESS INCOME. ENTER SCHEDULE MO-MS, PART 2, LINE 4 ON FORM MO-1120, LINE 9.**

5. Missouri Taxable Income — all sources (Form MO-1120, Page 1, Line 8)	5	00
6. Federal Income Tax (Form MO-1120, Page 1, Line 7)	6	00
7. Net Operating Loss (from Federal Form 1120, Line 29a)	7	00
8. Partial Missouri Taxable Income — All Sources — Add Lines 5 through 7	8	00
9. Nonbusiness Income — All Sources — **This will not be considered unless a detailed Schedule MO-NBI is attached.**	9	00
10. Apportionable Income (Line 8 less Line 9)	10	00
11. Apportioned Missouri Income (Line 10 times Line 4)	11	00
12 Nonbusiness Income — Missouri Sources — **This will not be considered unless a detailed Schedule MO-NBI is attached.**	12	00
13. Partial Missouri Taxable Income — Missouri sources (Line 11 plus Line 12)	13	00
14. Missouri Income Percentage (Divide Line 13 by Line 8). **Enter on Form MO-1120, Line 9.**	14	. %

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MISSOURI DEPARTMENT OF REVENUE
CORPORATION FRANCHISE TAX SCHEDULE

SCHEDULE
MO-FT

Attachment Sequence No. 1120-03 and 1120S-01

Schedule MO-FT must be filed with the Form MO-1120 or Form MO-1120S.

CORPORATION NAME	MITS/MO I.D. NUMBER	CHARTER NUMBER	FEIN NUMBER

FILE PERIOD BEGINNING (MMDDYY) 20 , ENDING 20

BALANCE SHEET DATE (MMDDYY)

Do your assets include an interest in a partnership and/or limited liability company? YES ☐ NO ☐

Has there been a change in your accounting period? YES ☐ NO ☐ If yes, state prior accounting period ___________________

Read instructions before completing this schedule.
NOTE: You cannot file a consolidated franchise tax return.

- Corporations having all assets within Missouri complete Lines 1, 2, 6a, and 7 **ONLY**.
- Corporations having assets both within and without Missouri complete all lines except 6a.

1. Par value of issued and outstanding stock (For no-par value stock, see instructions) **(not less than zero)**		1	00
2. Assets			
2a. Total assets **per attached balance sheet**		2a	00
2b. Less: Investments in and advances to subsidiaries over 50% owned (Attach Schedule MO-5071 or a schedule showing name of corporations, percentage of ownership, and amount)		2b	00
2c. Adjusted total (Line 2a less Line 2b)		2c	00
3. Allocation per attached balance sheet or schedule (See instructions.)	(A) MISSOURI		(B) EVERYWHERE
3a. Accounts receivable (net of allowance for bad debt)	3a 00	3a	00
3b. Inventories (net, book value)	3b 00	3b	00
3c. Land and fixed assets (net of accumulated depreciation)	3c 00	3c	00
3d. Total allocated assets (add Lines 3a, 3b, and 3c)	3d 00	3d	00
4. Missouri percentage for apportionment (Line 3d, Column A divided by Column B) Extend the apportionment percentage to six digits to the right of the decimal point.		4	
5. Assets apportioned to Missouri (Line 2c times Line 4)		5	00
6. Tax basis:			
6a. Corporations having all assets within Missouri (Line 2c or Line 1, whichever is greater)		6a	00
6b. Corporations having assets both within and without Missouri (Line 5 or the product of Line 1 times Line 4, whichever is greater.) If Line 6a or Line 6b is $1,000,000 or less, **STOP HERE** and **check Box A on Form MO-1120 or Box A on Form MO-1120S.**		6b	00
7. Tax Computation			
7a. Tax — 1/30th of 1% (.000333 of Line 6a or Line 6b)		7a	00
7b. Short periods (see instructions) — Line 7a x $\frac{\_\_\_\_}{12}$ (insert number of months in short period) = Prorated Tax Due		7b	00
7c. Tax due (Line 7a or Line 7b, whichever applies) Enter here and on Form MO-1120, Page 1, Line 15 or Form MO-1120S, Page 1, Line 15		7c	00

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MISSOURI DEPARTMENT OF REVENUE
FIDUCIARY INCOME TAX RETURN

2005 FORM **MO-1041**

ATTACH COPY OF FEDERAL FORM 1041 AND SUPPORTING SCHEDULES, INCLUDING SCHEDULE K-1.

FOR THE CALENDAR YEAR 2005 OR FISCAL YEAR BEGINNING _____ 2005, ENDING _____ , 20 __

THIS RETURN IS DUE ON APRIL 15 FOR CALENDAR YEAR RETURNS OR FOR FISCAL YEAR RETURNS IT IS DUE ON OR BEFORE THE FIFTEENTH DAY OF THE FOURTH MONTH AFTER CLOSE OF THE TAXABLE YEAR.

CHECK APPLICABLE BOXES: ☐ ADDRESS, FEIN CHANGE ☐ INITIAL RETURN ☐ FINAL RETURN ☐ AMENDED RETURN

NAME OF ESTATE OR TRUST	FEDERAL I.D. NUMBER
NAME AND TITLE OF FIDUCIARY — IF ESTATE, ENTER SOCIAL SECURITY NUMBER OF DECEDENT	SOCIAL SECURITY NUMBER
ADDRESS OF FIDUCIARY (NUMBER AND STREET)	**DOR USE ONLY**
CITY, STATE, ZIP CODE	P.M. / CODE

INFORMATION FOR FILING

A. CHECK WHETHER: ☐ ESTATE ☐ BANKRUPTCY ESTATE ☐ GRANTOR TRUST ☐ SIMPLE TRUST ☐ COMPLEX TRUST

B. IF TRUST, CHECK WHETHER: ☐ TESTAMENTARY ☐ INTER VIVOS

C. CHECK WHETHER ESTATE OR TRUST IS: ☐ RESIDENT ☐ NONRESIDENT

D. IS THIS AN ELECTING SMALL BUSINESS TRUST (ESBT)? ☐ YES ☐ NO

E. During this taxable year, was the estate or trust notified of any federal change for any prior years? ☐ Yes ☐ No
If YES, has an amended Missouri return been filed? ☐ Yes ☐ No If an amended return has not been filed, attach explanation as to why not.

F. Did the estate or trust receive federal tax-exempt income? ☐ YES ☐ NO (If “yes”, enter the amount of non-Missouri tax-exempt interest income and exempt-interest dividends here $ ____________ , and on the reverse side, Part 1, Line 4).

G. Does the estate or trust have any Missouri adjustments from Part 1 on the reverse side? ☐ YES ☐ NO

H. If the estate or trust has any nonresident beneficiaries, is any income from sources other than Missouri? ☐ YES ☐ NO (or not applicable)

I. Does Federal Form 1041, Line 22 reflect any taxable income of the estate or trust? ☐ YES ☐ NO

J. If **no** to **all** four questions, do **not** complete remainder of form. **Do** complete Form MO-NRF, Parts 1, 2, 4, and 6 for nonresident beneficiaries, if a distribution of Missouri source income was made.

K. If a **nonresident** estate or trust with income from both Missouri and non-Missouri sources — omit Lines 1–11, attach Form MO-NRF, check this box ☐ and skip to Line 12.

INCOME

1. Federal taxable income (from Federal Form 1041, Line 22 but not less than 0) ▶			1	00
2. Federal income tax (from Federal Form 1041, Schedule G, Line 4) ▶	2	00		
3. Other federal income tax (from Federal Form 1041, Schedule G, Lines 2a and 5) ▶	3	00		
4. Total federal deductions — add Lines 2 and 3 ▶	4	00		
5. Federal tax deduction. Enter amount from Line 4 not to exceed $5,000 ▶	5	00		
6. Capital gain exclusion on sale of low income housing; see instructions. ▶	6	00		
7. Estate or trust's share of Missouri fiduciary adjustment — SUBTRACTION (from Part 2, Column 6) ▶	7	00		
8. Total subtractions — add Lines 5, 6, and 7			8	00
9. Estate or trust's share of Missouri fiduciary adjustment — ADDITION (from Part 2, Column 6) ▶			9	00
10. Balance — Line 1 less Line 8, plus Line 9			10	00
11. Excess federal exemption (if Line 1 is equal to zero and Line 10 is positive, enter the excess amount of the personal exemption not used to reduce the federal taxable income to zero, after all other deductions are subtracted). Exemption is not allowed on final return ▶			11	00
12. Missouri taxable income (Line 10 less Line 11 for Missouri residents or from Form MO-NRF, Part 5, Line 9 for nonresidents) ▶			12	00

TAX

13. MISSOURI INCOME TAX (see 2005 tax table on page 7 of instructions) ▶	13	00
14. Credit for income tax paid to another state by resident estate or trust (attach Form MO-CR and copy of other state's return) ▶	14	00
15. BALANCE — subtract Line 14 from Line 13	15	00
16. Other taxes (check the appropriate box) ☐ Lump sum distribution ☐ Recapture taxes ▶	16	00
17. TOTAL TAX — add Lines 15 and 16	17	00

CREDITS AND PAYMENTS

18. Credits (attach Form MO-TC) ▶	18	00
19. Payments (see instructions) ▶	19	00
20. TOTAL CREDITS AND PAYMENTS. Add Lines 18 and 19.	20	00

REFUND OR TAX DUE

21. OVERPAYMENT — If Line 20 is greater than Line 17, enter amount overpaid **REFUND** ▶	21	00
22. TAX DUE — If Line 17 is greater than Line 20, enter amount due	22	00
23. Interest ▶	23	00
24. Additions to tax (for either late filing **OR** late payment) ▶	24	00
25. TOTAL DUE — add Lines 22 through 24 (U.S. funds only) (PAY THIS AMOUNT) **TOTAL DUE** ▶	25	00

For Privacy Notice, see the instructions.

NAME OF ESTATE OR TRUST AS SHOWN ON PAGE 1	FEDERAL I.D. NUMBER

PART 1 — MISSOURI FIDUCIARY ADJUSTMENT

Enter Missouri modifications which are related to items of income, gain, loss, and deductions that are determinants of federal distributable net income.

ADDITIONS (attach explanation of each item)				
1. State and local income taxes deducted on Federal Form 1041, Line 11	1	00		
2. Less: Kansas City and St. Louis earnings taxes	2	00		
3. Net (subtract Line 2 from Line 1)			3	00
4. Non-Missouri state and local bond interest	4	00		
5. Less: related expenses (omit if less than $500)	5	00		
6. Net (subtract Line 5 from Line 4)			6	00
7. ☐ Partnership ☐ Fiduciary ☐ Other adjustments (list ______)			7	00
8. Missouri depreciation adjustment (See Section 143.121, RSMo.)			8	00
9. Net operating loss (See Section 143.121.2(d), RSMo.)			9	00
10. Total of Lines 3, 6, 7, 8, and 9			10	00
SUBTRACTIONS (attach explanation of each item)				
11. Interest from exempt federal obligations (attach a detailed list)	11	00		
12. Less: related expenses (omit if less than $500)	12	00		
13. Net (subtract Line 12 from Line 11)			13	00
14. Amount of any state income tax refund included in federal taxable income			14	00
15. ☐ Partnership ☐ Fiduciary ☐ Other adjustments (list ______)			15	00
16. Missouri depreciation adjustment (See Section 143.121, RSMo.)			16	00
17. Total of Lines 13, 14, 15, and 16			17	00
18. Missouri fiduciary adjustment — **NET ADDITION** — excess Line 10 over Line 17			18	00
19. Missouri fiduciary adjustment — **NET SUBTRACTION** — excess Line 17 over Line 10			19	00

PART 2 — ALLOCATION OF MISSOURI FIDUCIARY ADJUSTMENT

Complete Part 2 ONLY if Part 1 indicates a Missouri fiduciary adjustment. The adjustment is allocated among all beneficiaries and estate or trust in the same ratio as their relative shares of federal distributable net income.

COMPLETE LIST OF BENEFICIARIES (RESIDENT AND NONRESIDENT)

1. NAME OF EACH BENEFICIARY. ALL BENEFICIARIES MUST BE LISTED. USE ATTACHMENT IF MORE THAN FOUR.	2. CHECK BOX IF BENEFICIARY IS NONRESIDENT	3. SOCIAL SECURITY NUMBER	SHARES OF FEDERAL DISTRIBUTABLE NET INCOME 4. PERCENT	5. AMOUNT	6. SHARES OF MISSOURI FIDUCIARY ADJUSTMENT ☐ ADDITION ☐ SUBTRACTION
a)	☐		%	00	00
b)	☐		%	00	00
c)	☐		%	00	00
d)	☐		%	00	00
Charitable Beneficiaries	☐		%	00	00
Estate or Trust	☐		%	00	00
TOTALS	☐		100%	00	00

COLUMN 4 — Indicate percentages.

COLUMN 5 — Total federal distributable net income must be the same as Federal Form 1041, Schedule B, Line 7.

COLUMN 6 — Enter Missouri fiduciary adjustment from Part 1, Line 18 or 19, as the total of Column 6. Multiply each percentage in Column 4 by the total in Column 6. Indicate at top of Column 6 whether the adjustments are additions or subtractions.

COLUMNS 4, 5, AND 6 — Attach a detailed explanation of the allocation method used if there is no federal distributable net income or if the percentages do not agree with the relative shares indicated on Federal Form 1041, Schedules B and K-1.

COLUMN 6 — The amount after each name is reported as a modification, either as an addition to or subtraction from federal adjusted gross income. Each beneficiary should add the explanation: “FIDUCIARY ADJUSTMENT — (NAME OF ESTATE OR TRUST)”. A copy of this part (or its information) must be provided to each beneficiary. The estate or trust’s share of the adjustment is entered on Page 1, Line 7 or Line 9.

If you pay by check, you authorize the Department of Revenue to process the check electronically. Any check returned unpaid may be presented again electronically.

AUTHORIZATION

I authorize the Director of Revenue or delegate to discuss my return and attachments with the preparer or any member of his/her firm. ☐ YES ☐ NO

PREPARER’S TELEPHONE NUMBER

SIGNATURE — PLEASE SIGN BELOW

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which he/she has any knowledge. As provided in Chapter 143, RSMo, a penalty of up to $500.00 shall be imposed on any individual who files a frivolous return.

SIGNATURE OF FIDUCIARY OR OFFICER REPRESENTING FIDUCIARY		SIGNATURE OF PREPARER OTHER THAN FIDUCIARY	FEIN OR PTIN
DATE	TELEPHONE NO.	ADDRESS	DATE

MAIL RETURN AND REQUIRED ATTACHMENTS TO: MISSOURI DEPARTMENT OF REVENUE, P.O. BOX 3815, JEFFERSON CITY MO 65105-3815.

MISSOURI DEPARTMENT OF REVENUE
PARTNERSHIP RETURN OF INCOME

2005 FORM **MO-1065**

Reset Form | Print Form

FOR THE YEAR JANUARY 1 – DECEMBER 31, 2005, OR FISCAL YEAR BEGINNING 2005, AND ENDING 20

☐ AMENDED RETURN ☐ FINAL RETURN ☐ NAME, ADDRESS, FEIN CHANGE ☐ COMPOSITE

BUSINESS NAME

DOR USE ONLY

NUMBER AND STREET

MISSOURI I.D. NUMBER

CITY OR TOWN, STATE, ZIP CODE

FEDERAL I.D. NUMBER

INFORMATION FOR FILING

If you are a **Limited Liability Company**, being taxed as a partnership, please check here. ☐

1. Does the partnership have ANY Missouri modifications? ☐ YES ☐ NO If YES, complete Parts 1 and 2 below.
2. Does the partnership have ANY nonresident partners? ☐ YES ☐ NO If YES, complete Form MO-NRP.

NOTE: If NO to both questions, do not complete remainder of return. Attach a copy of Federal Form 1065 and all its schedules, including Schedule K-1, sign below, and mail.

PART 1 — MISSOURI PARTNERSHIP ADJUSTMENT

Additions (attach detailed explanation of each item)

1. State and local income taxes deducted on Federal Form 1065	1	00		
2. Less: Kansas City and St. Louis earnings taxes	2	00		
3. Net (subtract Line 2 from Line 1)			3	00
4. State and local bond interest (except Missouri)	4	00		
5. Less: related expenses (omit if less than $500)	5	00		
6. Net (subtract Line 5 from Line 4)			6	00
7. ☐ Partnership ☐ Fiduciary ☐ Other adjustments (list ______)			7	00
8. Missouri depreciation adjustment (See Section 143.121, RSMo.)			8	00
9. Net operating loss (See Section 143.121.2(d), RSMo.)			9	00
10. Total of Lines 3, 6, 7, 8, and 9			10	00

Subtractions (attach explanation of each item)

11. Interest from exempt federal obligations	11	00		
12. Less: related expenses (omit if less than $500)	12	00		
13. Net (subtract Line 12 from Line 11)			13	00
14. Amount of any state income tax refund included in federal ordinary income			14	00
15. ☐ Partnership ☐ Fiduciary ☐ Other adjustments (list ______)			15	00
16. Missouri depreciation adjustment (See Section 143.121, RSMo.)			16	00
17. Total of Lines 13, 14, 15, and 16			17	00
18. Missouri partnership adjustment — **NET ADDITION** — excess Line 10 over Line 17			18	00
19. Missouri partnership adjustment — **NET SUBTRACTION** — excess Line 17 over Line 10			19	00

PART 2 — ALLOCATION OF MISSOURI PARTNERSHIP ADJUSTMENT TO PARTNERS

COMPLETE IF PART 1 INDICATES A PARTNERSHIP ADJUSTMENT

1. NAME OF EACH PARTNER. ALL PARTNERS MUST BE LISTED USE ATTACHMENT IF MORE THAN FOUR.	2. CHECK BOX IF PARTNER IS NONRESIDENT	3. SOCIAL SECURITY NUMBER	4. PARTNER'S SHARE %	5. PARTNER'S PARTNERSHIP ADJUSTMENT ☐ ADDITION ☐ SUBTRACTION
a)	☐	– –	%	00
b)	☐	– –	%	00
c)	☐	– –	%	00
d)	☐	– –	%	00
TOTAL			100 %	00

COLUMN 4 — Enter percentages from Federal Form 1065, Schedule K-1. Round percentages to whole numbers.
COLUMN 5 — Enter Missouri partnership adjustment from Part 1, Line 18 or 19. Multiply each percentage in Column 4 times the total in Column 5. Indicate at the top of Column 5, whether the adjustments are additions or subtractions. A copy of this part (or its information) must be provided to each partner. The amount after each partner's name in Column 5 must be reported as a modification on his/her Form MO-1040, Individual Income Tax Return, Part 1 of the Form MO-A, as an addition to, or subtraction from, the federal adjusted gross income. Each partner must attach an explanation for the adjustment to his/her return.

AUTHORIZATION

I authorize the Director of Revenue or delegate to discuss my return and attachments with the preparer or any member of his/her firm. ☐ YES ☐ NO

PREPARER'S TELEPHONE NUMBER

SIGNATURE — PLEASE SIGN BELOW

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than partner or member) is based on all information of which he/she has any knowledge.

SIGNATURE OF GENERAL PARTNER		PREPARER'S SIGNATURE (OTHER THAN TAXPAYER)	FEIN, SSN OR PTIN
DATE	TELEPHONE NO.	PREPARER'S ADDRESS AND ZIP CODE	DATE

ATTACH COPY OF FEDERAL FORM 1065 AND ALL ITS SCHEDULES, INCLUDING K-1 AND SEND WITH COMPLETED RETURN TO: Missouri Department of Revenue P.O. Box 3000, Jefferson City, MO 65105-3000.

MO 860-1097 (11-2005)

For Privacy Notice, see the instructions.

GENERAL INFORMATION

This information is for guidance only and does not state the complete law.

Who Must File Form MO-1065

Form MO-1065 must be filed, if Federal Form 1065 is required to be filed and the partnership has (1) a partner that is a Missouri resident or (2) any income derived from Missouri sources, Section 143.581, RSMo. Items of income, gain, loss, and deduction derived from, or connected with, sources within Missouri are those items attributable to (1) the ownership or disposition of any interest in real or tangible personal property in Missouri or (2) a business, trade, profession, or occupation carried on in Missouri. Income from intangible personal property, to the extent that such property is employed in a business, trade, profession, or occupation carried on in Missouri, constitutes income derived from sources within Missouri.

Short Form — Form MO-1065

If you check "No" on both questions 1 and 2 on Form MO-1065, attach a copy of Federal Form 1065 and all its schedules, including Schedule K-1. Sign Form MO-1065 and mail the return.

If you check "Yes" on question 1 on Form MO-1065, Parts 1 and 2 must be completed. If "Yes" was checked on question 2, Form MO-1065, complete Form MO-NRP. Attach a copy of Federal Form 1065 and all its schedules, including Schedule K-1. Sign Form MO-1065 and mail the return.

When and Where to File

A Missouri partnership return should be completed after the federal partnership return is completed. The Missouri partnership return is due no later than the 15th day of the 4th month following the close of the taxable year. For partnerships operating on a calendar year basis, the partnership return is due on or before April 15. When the due date falls on a Saturday, Sunday, or legal holiday, the return will be considered timely if filed on the next business day. Please mail the return to: Missouri Department of Revenue, P.O. Box 3000, Jefferson City, MO 65105-3000.

Period Covered by the Return

Form MO-1065, Partnership Return of Income, must cover the same period as the corresponding Federal Form 1065. Indicate the period covered on the front of the return if other than a calendar year.

Rounding on Missouri Returns

You must round all cents to the nearest whole dollar on your return. For cents .01 through .49, round down to the previous whole dollar amount. For cents .50 through .99, round up to the next whole dollar amount. For your convenience, the zeros have already been placed in the cent columns on the returns.

Credits

Partners may be entitled to tax credits. These credits must be allocated to the partners' percentage of ownership and reported on the Form MO-1040, Individual Income Tax Return. See Form MO-1040 and Form MO-TC instructions for further information. You may also access the information at **www.dor.mo.gov/tax/misc/taxcredit.**

Nonresident Partners

Every partnership, including limited liability companies that are treated as a partnership by the Internal Revenue Service (IRS), must file Form MO-1NR, Income Tax Withheld for Nonresident Individual Partners or S Corporation Shareholders and send in copies of Form MO-2NR, Statement of Income Tax Payments for Nonresident Individual Partners or S Corporation Shareholders, if it has nonresident individual partners who do not meet one of the following exceptions:

- the nonresident partner, not otherwise required to file a return, elects to have the Missouri income tax due paid as part of the partnership's composite return;
- the nonresident partner, not otherwise required to file a return, had Missouri assignable federal adjusted gross income from the partnership of less than twelve hundred ($1,200) dollars;
- the partnership is liquidated or terminated, income was generated by a transaction related to termination on liquidation, and no cash or property was distributed in the current or prior taxable year.

A nonresident partner can request the partnership be exempt from withholding by filing a completed Form MO-3NR, Partnership/S Corporation Withholding Exemption/ Revocation Agreement.

Form MO-1NR must be filed by the due date or extended due date for filing the partnership income tax return. Form MO-3NR must be filed by the due date for filing the partnership income tax return without regard to an extension of time to file. Forms may be obtained by contacting: Missouri Department of Revenue, Taxation Bureau, P.O. Box 3022, Jefferson City, MO 65105-3022, calling (800) 877-6881 (TDD (800) 735-2966), visiting the department's web site at **www.dor.mo.gov/tax**, or contacting the department's Forms-by-Fax at (573) 751-4800.

If you have technical questions concerning the filing of Form MO-1NR and Form MO-3NR, you may contact the Taxation Bureau at (573) 751-1467.

Partnerships filing a composite return on behalf of their nonresident partners should mark the composite return box on Page 1 of the return. The composite return is filed on the Form MO-1040. Complete instructions can be found on the department's web site at **www.dor.mo.gov/tax/business/forms/composite.pdf.**

Authorization

Check the "yes" box for authorization of release of confidential information for the Director of Revenue or delegate to discuss this return and attachments with the preparer whose signature appears on the Form MO-1065 or to any member of his/her firm. If the authorization box is checked "no", or if no box is checked, the Department of Revenue can only discuss this return with a partner. Refer to Section 32.057(1), RSMo.

Sign the Return

Form MO-1065, Partnership Return of Income, must be signed by one of the partners of the partnership or one of the members of the joint venture or other enterprise. Any member or partner, regardless of position, may sign the return.

Internet

To obtain information and Missouri tax forms, access our web site at: **www.dor.mo.gov/tax**

Tax Forms Available by Fax

Blank Missouri tax forms are available by fax. To access the Forms-by-Fax system call (573) 751-4800 from your fax machine handset. The Forms-by-Fax system will take you through the steps required to receive a fax copy of the forms you need. If you are speech or hearing impaired, please call TDD (800) 735-2966 or fax (573) 526-1881.

Americans With Disabilities Act (ADA)

The state of Missouri offers a Dual Party Relay Service (DPRS) for speech/hearing impaired individuals in accordance with the Americans with Disabilities Act (ADA). An individual with a speech/hearing impairment may call a voice user at TDD (800) 735-2966 or fax (573) 526-1881.

FORM MO-1065, PARTNERSHIP RETURN OF INCOME INSTRUCTIONS

Part 1 — Missouri Partnership Adjustment

The addition and subtraction items listed on Part 1 are necessary Missouri modifications. Completion of Part 1 will result in the net Missouri partnership adjustment that will be allocated to the partners in Part 2. The partner's adjustment can only be made from information available from the partnership. It is necessary for each partnership having modifications to complete Form MO-1065, Parts 1 and 2, and notify each partner of the adjustment to which he/she is entitled.

Interest on Exempt Federal Obligations — Interest from direct obligations of the U.S. Government, such as U.S. savings bonds, U.S. treasury bills, bonds, and notes is exempt from state taxation under the laws of the United States. Attach a detailed list or all Federal Form 1099(s). Partnerships that claim an exclusion for interest from U.S. obligations must identify the specific securities owned, (e.g., U.S. savings bond). A general description, such as "interest on U.S. obligation" or "U.S. Government securities" is not acceptable. (See 12 CSR 10-2.150 for the taxability of various U.S. Government-related obligations.) A list of exempt U.S. obligations must be provided to each partner by the partnership. This list will allow the partner to report the modification on his/her Form MO-1040, Individual Income Tax Return.

A federally taxed distribution received from a mutual fund investing exclusively in direct U.S. Government obligations is exempt. If the mutual fund invests in both exempt (direct) and nonexempt (indirect) federal obligations, the deduction allowed will be the distribution received from the mutual fund attributable to the direct U.S. Government obligations, as determined by the mutual fund. A copy of the year-end statement received from the mutual fund showing the amount of monies received or the percentage of funds received from direct U.S. Government obligations or a summary statement received from the mutual fund which clearly identifies the exempt and nonexempt portions of the U.S. Government obligations interest, must be provided to each partner by the partnership. Note: Failure to attach a copy of the notification furnished to you that specifically details the amount of the subtraction being claimed as the distributive share will result in the disallowance of the deduction.

In arriving at the amount of related expenses, the taxpayer may use actual expenses or a reasonable estimate. In general, the taxpayer should use the same or similar method to that used to compute related expenses for federal income tax purposes, provided that the method reasonably reflects related expenses for Missouri-exempt income.

If a taxpayer fails to compute reasonable related expenses, the Director of Revenue will make an adjustment based on the best information made available. If sufficient information is not made available or if the taxpayer's records do not provide sufficient information, the Director of Revenue will use the following formula to compute related expenses:

$$\frac{\text{Exempt income}}{\text{Total income}} \times \text{Expense items} = \text{Reduction to exempt income}$$

The principal expense item in this formula is interest expense; however, the Director of Revenue may include other expense items because of the direct relationship to the production of exempt income. The taxpayer may propose an alternative method provided that it properly reflects the amount of related expenses.

A net operating loss cannot be carried back to more than two tax periods. See Section 143.121.2(d), RSMo for more information.

The difference between the federal and Missouri depreciation calculated on assets purchased between July 1, 2002 and June 30, 2003 must be added/subtracted to disallow the accelerated depreciation and redistributed in subsequent years. See Section 143.121, RSMo for more information. See **www.dor.mo.gov/tax** for more information, including information regarding the "30 Percent Special Depreciation Allowance".

Part 2 — Allocation of Missouri Partnership Adjustment to Partners

Part 2 indicates the portion of the Missouri adjustment from Part 1 that is allocated to each partner. Column 4 and the instructions for Column 5 are based upon the usual situation that a single general profit and loss sharing percentage applies to all partnership items and related modifications. Attach a detailed explanation (including extracts from the partnership agreement) if the Column 5 amounts are not based upon the same single percentage allocation indicated on Federal Form 1065, Schedule K-1. The explanation must include the nontax purposes and effects of the special allocation method.

Reset Form | Print Form

MISSOURI DEPARTMENT OF REVENUE
DECLARATION OF ESTIMATED TAX FOR CORPORATION INCOME TAX

2006 FORM **MO-1120ES**

BUSINESS NAME

STREET ADDRESS

CITY, STATE, ZIP CODE

CHARTER NUMBER

Return this form with check or money order payable to: **Missouri Director of Revenue, P.O. Box 3020, Jefferson City, MO 65105-3020.** If you pay by check, you authorize the Department of Revenue to process the check electronically. Any check returned unpaid may be presented again electronically.

1ST QTR.

1. Missouri Tax I.D. Number . . . . *
2. Federal I.D. Number . . . . *
3. Taxable Year Ending (MM/YY) . . . . *
4. Due Date (MM/DD/YY) . . . . . . *
5. **Amount of this Installment (U.S. funds only) . . .** $. 0 0

DOR USE ONLY *

*

MO 860-1169 (6-2006)

MISSOURI DEPARTMENT OF REVENUE
DECLARATION OF ESTIMATED TAX FOR CORPORATION INCOME TAX

2006 FORM **MO-1120ES**

BUSINESS NAME

STREET ADDRESS

CITY, STATE, ZIP CODE

CHARTER NUMBER

Return this form with check or money order payable to: **Missouri Director of Revenue, P.O. Box 3020, Jefferson City, MO 65105-3020.** If you pay by check, you authorize the Department of Revenue to process the check electronically. Any check returned unpaid may be presented again electronically.

2ND QTR.

1. Missouri Tax I.D. Number . . . . *
2. Federal I.D. Number . . . . *
3. Taxable Year Ending (MM/YY) . . . . *
4. Due Date (MM/DD/YY) . . . . . . *
5. **Amount of this Installment (U.S. funds only) . . .** $. 0 0

DOR USE ONLY *

*

MO 860-1169 (6-2006)

MISSOURI DEPARTMENT OF REVENUE
DECLARATION OF ESTIMATED TAX FOR CORPORATION INCOME TAX

2006 FORM **MO-1120ES**

BUSINESS NAME

STREET ADDRESS

CITY, STATE, ZIP CODE

CHARTER NUMBER

Return this form with check or money order payable to: **Missouri Director of Revenue, P.O. Box 3020, Jefferson City, MO 65105-3020.** If you pay by check, you authorize the Department of Revenue to process the check electronically. Any check returned unpaid may be presented again electronically.

3RD QTR.

1. Missouri Tax I.D. Number . . . . *
2. Federal I.D. Number . . . . *
3. Taxable Year Ending (MM/YY) . . . . *
4. Due Date (MM/DD/YY) . . . . . . *
5. **Amount of this Installment (U.S. funds only) . . .** $. 0 0

DOR USE ONLY *

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MO 860-1169 (6-2006)

MISSOURI DEPARTMENT OF REVENUE
DECLARATION OF ESTIMATED TAX FOR CORPORATION INCOME TAX

2006 FORM **MO-1120ES**

BUSINESS NAME

STREET ADDRESS

CITY, STATE, ZIP CODE

CHARTER NUMBER

Return this form with check or money order payable to: **Missouri Director of Revenue, P.O. Box 3020, Jefferson City, MO 65105-3020.** If you pay by check, you authorize the Department of Revenue to process the check electronically. Any check returned unpaid may be presented again electronically.

4TH QTR.

1. Missouri Tax I.D. Number . . . . *
2. Federal I.D. Number . . . . *
3. Taxable Year Ending (MM/YY) . . . . *
4. Due Date (MM/DD/YY) . . . . . . *
5. **Amount of this Installment (U.S. funds only) . . .** $. 0 0

DOR USE ONLY *

*

MO 860-1169 (6-2006)

MISSOURI DEPARTMENT OF REVENUE
DECLARATION OF ESTIMATED TAX FOR CORPORATION INCOME TAX

GENERAL INSTRUCTIONS

1. **CORPORATIONS REQUIRED TO FILE ESTIMATED TAX PAYMENTS:** If your corporation is subject to income tax under Chapter 143, RSMo (including those with unrelated business taxable income and excluding qualified S corporations), your corporation is required to make estimated tax payments for the taxable year if your Missouri estimated tax can reasonably be expected to be at least $250 (Section 143.521.2, RSMo). **Do not use Form MO-1120ES for S corporation shareholder composite returns.** Estimated tax payments may be applied to unpaid corporate income taxes and franchise taxes.
2. **WHEN TO FILE AND PAY ESTIMATED TAX PAYMENTS:** You must file the estimated tax payments along with Form MO-1120ES, on or before the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. When the due date falls on a Saturday, Sunday, or legal holiday, the payment will be considered timely if made on the next business day. Payments must accompany the Form MO-1120ES. Your corporation will not receive a quarterly billing.
3. **CHANGES IN TAXABLE INCOME:** On April 17, your corporation may not be required to file an estimated tax payment. In the event a change in income later requires an estimated tax payment, the time for filing is as follows: June 15 if the change occurs after April 1 and before June 2; September 15 if the change occurs after June 1 and before September 2; December 15 if the change occurs after September 1. (These dates only apply to a calendar year corporation. For fiscal year corporations, complete the Estimated Tax Worksheet [Section 143.531, RSMo]).

   PLEASE NOTE: Filing an estimated tax payment, amended estimated tax payment, or payment on the last installment date of the taxable year will not relieve the corporation of additions to tax for failure to pay the estimated tax by the designated due dates.
4. **AMENDED ESTIMATED TAX PAYMENTS:** If your corporation has filed an estimated tax payment(s) and later determines its estimated tax has substantially changed, the estimated tax payment that is to be filed on or before the next filing date, must reflect the amended figures. A worksheet is provided in this book for determining the amended estimated tax.
5. **ADDITIONS TO TAX FOR FAILURE TO PAY ESTIMATED TAX:** Section 143.761, RSMo, provides for additions to tax for underpayment of estimated tax. Calculate the additions to tax and the applicable rate of interest from the date of the underpaid installment (Form MO-2220). Interest will be charged on all delinquent payments. Additions to tax do not apply if each installment is paid timely, and the total amount of all payments of estimated tax made on or before the last date prescribed for payment of such installment equals or exceeds:

   a) 90 percent of the tax shown on the return (Form MO-1120) for the taxable year; or

   b) the tax shown on the preceding year's return, if the return showed a tax liability and was a taxable year of 12 months; or

   c) 90 percent of the tax on the annualized taxable income of periods from the first of the year to the end of the month preceding that, in which an installment is due; or

   d) 90 percent of the tax computed on the basis of the actual taxable income for the months in the taxable year ending before the month, that the installment is required to be paid as if such months constituted the taxable year; or

   e) the tax figured by using the current year's rates but based on the prior year's return and the law that applied to the prior year; or

f) 90 percent of the tax for the taxable year computed by placing on an annualized basis the taxable income for the months in the taxable year ending before the month, that the installment is required to be paid.

Access **www.dor.mo.gov/tax** to obtain the current interest rate.

NOTE: Exceptions (b) and (e) do not apply to large corporations (defined in Section 143.761.6, RSMo, as one that in any of the three preceding taxable years had a federal taxable income of at least one million dollars and Missouri taxable income of at least one hundred thousand dollars). Please see Section 143.761, RSMo, and 12 CSR 10-2.067 for other exceptions provided by law and further clarification.

ROUNDING ON ESTIMATED TAX PAYMENTS: You must round all cents to the nearest whole dollar. For 1 cent through 49 cents, round down to the previous whole dollar amount (round $32.49 down to $32.00) on the form. For 50 cents through 99 cents, round up to the next whole dollar amount (round $32.50 up to $33.00) on the form. The zeros have already been placed in the cent columns.

VOUCHER BOOK INFORMATION: There are occasions when it is necessary for you, the taxpayer, to contact the Department of Revenue (department) to request a new voucher book. Please visit the department's web site at **www.dor.mo.gov/tax/vouchers** to find out when to request a new voucher book.

ESTIMATED TAX WORKSHEET

1. Enter your estimated Missouri taxable income.
2. Multiply Line 1 by 6.25 percent and enter the result on Line 2.
3. List the amount of the approved tax credit you will be taking on your Corporate Income Tax Return. The credit must be purchased or approved by the administering agency before it can be included on your estimated tax worksheet.
4. Subtract Line 3 from Line 2 and enter the result on Line 4.
5. Determine your filing date and multiply Line 4 by the appropriate fraction based on the information listed on Line 5 of the worksheet.
6. Enter the amount of your installment from Line 5 and subtract any approved overpayment credit. (Each installment should be equal amounts.)

FORM MO-1120ES

- Verify name, address, Missouri Tax I.D. Number (MITS), Federal I.D. Number (FEIN), and Charter Number on Form MO-1120ES. If any information is missing, please fill in the correct information.
- Enter on Form MO-1120ES, Line 1, the amount of the installment payment from Line 6c of the Estimated Tax Worksheet.
- Mail remittance, payable to the Missouri Director of Revenue. Include the Missouri Tax I.D. Number (MITS) on the check or money order (U.S. funds only). Use the mailing labels located in this book.

If the declaration must be amended:

- Complete the Amended Estimated Tax Worksheet.
- Enter the revised amounts on the remaining forms.
- Mail with remittance, payable to the Missouri Director of Revenue.

IF YOU HAVE ANY QUESTIONS CONCERNING MISSOURI CORPORATION ESTIMATED TAX PAYMENTS, PLEASE WRITE TO:

Missouri Department of Revenue
P.O. Box 3365
Jefferson City, MO 65105-3365
(573) 751-4541
Individuals with speech/hearing impairments call TDD at (800) 735-2966.
e-mail: corporate@dor.mo.gov

This publication is available upon request in alternative accessible format(s).

RECORD OF ESTIMATED TAX PAYMENTS

QUARTER	DATE	CHECK OR MONEY ORDER NUMBER	(a) ESTIMATED AMOUNT	(b) APPROVED OVERPAYMENT CREDIT APPLIED TO INSTALLMENT	(c) TOTAL AMOUNT PAID AND CREDITED ADD (a) AND (b)
1			00	00	00
2			00	00	00
3			00	00	00
4			00	00	00
TOTAL			00	00	00

ESTIMATED TAX WORKSHEET

KEEP FOR YOUR RECORDS — DO NOT FILE

1. Missouri estimated taxable income. (REMINDER: Only 50% of the federal income tax liability can be used as a deduction in computing Missouri taxable income.)	1	$ 00
2. Estimated tax for tax year. (Multiply Line 1 by 6.25%.)	2	$ 00
3. Approved tax credit (List amount of **approved** tax credit.)	3	$ 00
4. Estimated tax due (Subtract Line 3 from Line 2.)	4	$ 00

5. If the corporation is required to file by:

CALENDAR YEAR	OR FISCAL YEAR			
April 15	15th day of 4th month	Enter 1/4 of Line 4 and make 4 equal installments		
June 15	15th day of 6th month	Enter 1/3 of Line 4 and make 3 equal installments		
Sept. 15	15th day of 9th month	Enter 1/2 of Line 4 and make 2 equal installments		
Dec. 15	15th day of 12th month	Enter amount of Line 4	5	$ 00

	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.
6. a. Amount of the installment from Line 5, above.	00	00	00	00
b. Less approved overpayment credit applied to this installment	00	00	00	00
c. Amount of this installment payment — (Line 6a minus Line 6b) — Enter here and on Form MO-1120ES, Line 5.	00	00	00	00

AMENDED MISSOURI ESTIMATED TAX WORKSHEET

NOTE: If the corporation's estimated tax substantially changes during the year, use the amended computation schedule below to determine the amended amount to be entered on the remaining Form MO-1120ES(s). **The corporation will not receive a billing. Please remit when due to avoid additions to tax for underpayment of estimated tax.**

1. Amended estimated tax	1	$ 00
2. Less:		
a. Amount of last year's approved overpayment elected for credit to estimated tax and applied to date	2a	$ 00
b. Payments made on prior Form MO-1120ES	2b	$ 00
c. Total of Lines 2a and 2b	2c	$ 00
3. Unpaid balance (Line 1 less Line 2c)	3	$ 00

	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.
4. a. Amount to be paid (Line 3 divided by number of remaining installments.) Enter this amount in the appropriate remaining installment columns and enter your previous payments in the appropriate columns.	00	00	00	00
b. Less approved overpayment credit applied to the installment.	00	00	00	00
c. Amount of this installment payment (Line 4a minus Line 4b). Enter here and on Form MO-1120ES, Line 5. (Also record amounts already paid in this column.)	00	00	00	00

ROUND ALL CENTS TO THE NEAREST WHOLE DOLLAR

Order Code RL32297

CRS Report for Congress
Received through the CRS Web

State Corporate Income Taxes: A Description and Analysis

Updated June 30, 2006

Steven Maguire
Analyst in Public Finance
Government and Finance Division

Congressional Research Service ❖ The Library of Congress

State Corporate Income Taxes: A Description and Analysis

Summary

Recently, state corporate income taxes have become the subject of renewed interest to both state and federal policymakers. The cause of this elevated interest may be the variation in revenue generated by the tax, the expansion of electronic commerce, and federal tax policy that affects state corporate income taxes. Congress has had a role in state corporate income taxes for at least two reasons: (1) interstate commerce regulatory oversight and (2) federal and state corporate income tax interaction. Congress may become more involved in state corporate tax issues because of recent changes in interstate commerce and how states administer corporate taxes.

The state corporate income tax is not a major source of revenue for states, but is still an important contributor to state finances. Over the last decade, state corporate income taxes generated approximately 5% of state tax revenue. However, the revenue generated by the tax — measured as a percentage of gross domestic product — has been gradually declining. Several explanations have been offered for this gradual decline including (1) state policy decisions to lower the tax burden on corporations, (2) aggressive tax planning by corporations, (3) broad economic cycles diminishing the base, and (4) federal corporate income tax policy. Most research has identified the first two factors as the primary cause for the recent decline.

Many corporations operate in multiple tax jurisdictions which makes the state corporate income tax a relatively complex tax to administer. The base of the corporate income tax (net income or profits) must be fairly apportioned to all of the states where the firm has established a presence (or nexus). A mosaic of nexus standards has been created through multistate tax compacts, state and federal legal decisions, and congressional actions. At present, states do not use a uniform definition of taxable profits or use a uniform method of apportioning income.

On June 28, 2006, the House Judiciary Committee approved H.R. 1956. This legislation addresses nexus issues for state corporate income taxes, and is often identified as "brightline" legislation. H.R. 1956 would establish more uniform standards — generally higher standards — for the level of business activity that would trigger nexus and thus corporate income taxability. In the Senate, S. 2721 was introduced on May 4, 2006,and is very similar to H.R. 1956.

Nexus issues are also addressed in what has been identified as "streamlining" legislation. Generally, the streamlining legislation, such as S. 2152 and S. 2153, would allow states to require out-of-state vendors to collect sales and use taxes even if the out-of-state vendor does not have nexus in the taxing state. Participating states would have to simplify sales and use taxes before Congress would confer collection enforcement authority. Interstate commerce has complicated the nexus issue for sales and use tax administration, and how this issue is resolved may have broader implications for state corporate income taxes. This report will be updated as legislative events warrant.

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State Corporate Income Taxes: A Description and Analysis

Congressional interest in state corporate income taxes arises from two distinct issues. First, Congress has a direct role in the oversight and regulation of interstate economic activity. State taxation of multi-state corporations would certainly be included in this jurisdiction. Second, federal corporate income tax policy changes have a direct effect on state (and local) tax structure.[1] Congressional activity, or in some cases inactivity, in these two areas can have a pronounced effect on state budget decisions. After an overview of state corporate income taxes, this report analyzes both the interstate commerce oversight and tax interaction issues. The last section of the report describes and analyzes legislation that would affect state corporate income taxes.

State Corporate Income Taxes: Overview

For most observers, state corporate income taxes are the most familiar state tax that businesses pay. However, corporate income taxes generated less than 6.0% of total state tax revenue in 2005. In contrast, general sales and use taxes, of which businesses pay a large portion, accounted for approximately 32.7% of state tax revenue.[2] Even though state corporate income taxes represent a relatively small portion of total state tax revenue in most states, the state corporate income tax still generated $38.7 billion in 2005. And, in some states, the corporate income tax contributes a much larger share of total tax revenue. For example, from 1972 to 2005, the corporate income tax averaged approximately 19.9% of total state tax revenue in New Hampshire. In contrast, the corporate income tax contributed 3.7% of total tax revenue in South Dakota.[3] **Table 1** reports the average reliance on corporate income taxes for each state and the District of Columbia over the 34-year span, 1972 to 2005.

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[1] State taxation of international firms and individuals is also of interest to Congress. International tax policy, however, extends beyond the scope of this report.

[2] Data are CRS calculations based on U.S. Census of Governments data. These data is available at the following website [http://www.census.gov/govs/www/statetax05.html]. Robert Cline, Tom Neubig, and Andrew Phillips, "Total State and Local Business Taxes: Nationally 1980-2005 and by State 2002-2005," *State Tax Notes*, May 1, 2006, estimated that businesses paid approximately 44% of total state and local taxes. They also estimated that businesses paid over half of total general sales tax revenue.

[3] CRS calculations based on U.S. Census of Governments data; see above for website link.

Table 1. Average State Corporate Income Tax Revenue as Share of Total Tax Revenue, 1972 to 2005

State	Annual Average Corporate Income Tax Share of Total Tax Revenue (1972 to 2005)	State	Annual Average Corporate Income Tax Share of Total Tax Revenue (1972 to 2005)
Alabama	4.85%	Montana	7.22%
Alaska	19.38%	Nebraska	5.29%
Arizona	5.79%	Nevada	no C.I.T.
Arkansas	6.09%	New Hampshire	19.88%
California	10.91%	New Jersey	9.70%
Colorado	5.02%	New Mexico	4.30%
Connecticut	10.45%	New York	8.59%
Delaware	9.09%	North Carolina	7.72%
District of Columbia*	5.08%	North Dakota	6.94%
Florida	5.58%	Ohio	6.21%
Georgia	7.03%	Oklahoma	4.01%
Hawaii	3.14%	Oregon	7.44%
Idaho	6.41%	Pennsylvania	9.30%
Illinois	8.19%	Rhode Island	6.51%
Indiana	6.15%	South Carolina	5.83%
Iowa	5.39%	South Dakota	3.73%
Kansas	7.74%	Tennessee	8.65%
Kentucky	6.22%	Texas	no C.I.T.
Louisiana	6.49%	Utah	4.69%
Maine	4.91%	Vermont	5.35%
Maryland	4.78%	Virginia	5.19%
Massachusetts	10.74%	Washington	no C.I.T.
Michigan	12.77%	West Virginia	5.60%
Minnesota	7.48%	Wisconsin	6.96%
Mississippi	5.04%	Wyoming	no C.I.T.
Missouri	4.60%		

Source: CRS calculations based on U.S. Census Bureau, Governments Division, *Federal, State, and Local Governments: State Government Tax Collections*. These data are available at the following website [http://www.census.gov/govs/www/statetax.html].

* Data for the District of Columbia are from the District of Columbia Government, *FY2006 Proposed Budget and Financial Plan,* and represent the years 1990 to 2005.

As New Hampshire and South Dakota show, the dependence on corporate income taxes varies considerably from state to state; thus, federal corporate income tax policy does not have a uniform effect on all states. The remainder of this section describes the mechanics behind state corporate income taxes, highlighting the differences among states. Understanding the nuances of state corporate income taxes is necessary for a complete discussion and analysis of interstate commerce issues and the link between federal and state tax policy.

The Mechanics of the State Corporate Income Tax

Generally, the state corporate income tax is levied on the accounting profits of a corporation.[4] The portion of profit that can be attributed to a state serves as the base for that state's corporate income tax. Profits are allocated to a state based on the amount of economic activity that occurs in that state. Following is a more detailed description of the state corporate income tax structure.

Federal Starting Point. Most states and the District of Columbia incorporate the federal income tax code as currently amended (15 states) or as of a specific date (20 states).[5] The remaining states typically use a measure of income that closely follows the federal definition of taxable income. Using the federal starting point likely eases the compliance burden for corporations, particularly those that have nexus in several states. Nevertheless, many states still require corporations to "add-back" to income exclusions that are allowed under federal corporate income tax rules.[6]

The Uniform Division of Income for Tax Purposes Act (UDITPA). The Uniform Division of Income for Tax Purposes Act (UDITPA) is a model act drafted and adopted by the Commissioners on Uniform State Laws and the American Bar Association. The act sets standards for separating income into business income, which is apportioned to states, and non-business income, which is allocated entirely to the entity's home state.[7] Generally, non-business income is defined as passive income on corporate owned assets; income from these assets could include dividends, rents, and royalties. Corporations could avoid paying taxes on non-business income by locating in states without a corporate income tax.[8] Some states, through the Multistate Tax Compact (MTC), have voluntarily adopted uniform rules and procedures for the allocation and apportionment of income — as defined under UDITPA — to ease the compliance burden on multistate businesses.[9] Many of the states that have not formally adopted UDITPA standards still closely adhere to the UDITPA standards.

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[4] Net income is revenue less expenses, which is roughly equivalent to pre-tax accounting profits.

[5] These 35 states directly incorporate the federal tax code, however, all states except for Arkansas and Mississippi (and D.C.), use federal income for the starting point for purposes of calculating income tax liability.

[6] Bureau of National Affairs, "Multistate Tax Report: 2003 Survey of State Tax Departments," vol. 10, no. 4, Apr. 25, 2003. The report identifies the add-backs and other special corporate income tax rules for each state.

[7] For more on UDITPA, see John S. Warren, "UDITPA — A Historical Perspective," *State Tax Notes*, Oct. 3, 2005, pp. 133-136.

[8] A "throwback" or unitary accounting rules would limit this type of tax planning to avoid taxation of non-business income.

[9] According to the Commerce Clearing House (CCH) publication, State Corporate Income Tax Guide, seven states have enacted UDITPA as written and 12 more states have adopted UDITPA with some minor modifications.

The Profit Apportionment Formula. Typically, three factors of economic activity are used in the apportionment formula to measure the economic presence of a firm in a state: the percentage of property, the percentage of sales, and the percentage of payroll. Not all states weigh factors equally; some over-weight sales or use only sales to allocate income (often called single-factor sales apportionment). In theory, the weighting should accurately portray the economic presence of the firm. There is no consensus on the definition of "economic presence," and hence there is variation among state apportionment formulas.

Some analysts have suggested that a formula that double-weights sales is the ideal formula because it gives equal weight to input factors (property and payroll), and an output factor (sales).[10] Others have argued that the business tax should be levied based on the business's use of government services provided by the firm's resident state. For example, a corporate income tax that is levied according to the value of one input only, such as property, could be justified because the value of property is closely related to the level of government services provided to the business by the home state. However, corporations also receive benefits from an out-of-state customer's well functioning legal system and public infrastructure. An apportionment formula that includes just the property factor would not compensate the out-of-state customer's government for the benefit to the corporation of those public services.

The general form of the apportionment formula is reproduced below. The superscript i represents the profits (π), sales (s), property (p), and labor (l), a state attributes to the i-th firm. The superscript T represents the total value of each factor and profits for the firm in a given tax year. The subscript w represents the weight of each respective factor as defined by state law; the weights sum to one.

For example, states that use an even-weight formula would use 0.33 for each w, meaning each factor contributes equally to the determination of profits attributable to a state. If the state were to "double-weight" sales, that means that the w_s is twice the amount of each of the other two weights. In the case of double-weight sales, w_s=0.50; w_p=0.25; and w_l=0.25.

$$\pi^i = \pi^T \times \left[\left(\frac{s^i}{s^T} \right) \times w_s + \left(\frac{p^i}{p^T} \right) \times w_p + \left(\frac{l^i}{l^T} \right) \times w_l \right]$$

Nexus. The apportionment formula does not imply that a business that sells goods and services into a state, owes taxes to that state. A state can levy a corporate income tax on a business only if the business maintains a substantial nexus in the state. The nexus rules governing the corporate income tax were partially circumscribed by Congress through P.L. 86-272, (the act). The act established that the mere solicitation of the sale of *tangible* goods by a firm in a state was not

[10] James Francis and Brian H. McGavin, "Market Versus Production States: An Economic Analysis of Apportionment Principles," in *State Taxation of Business: Issues and Policy Options*, Thomas Pogue, ed. (New York: Praeger Publishers, 1992), p. 61.

substantial nexus for corporate income tax purposes. However, for intangible goods and services, there is significant variation from state to state in how physical presence is defined.

The Bureau of National Affairs periodically surveys state revenue departments about activities that could create nexus.[11] The responses highlight the differential treatment from state to state of business activities deemed to create nexus. For example, according to the report, 14 states reported that an out-of-state corporation that maintained a website on a server in the state had established nexus whereas 24 states reported that the activity would not. Another six states indicated that a website would establish nexus only if the server on which the website resided was owned by the corporation.[12]

Throwback Rule. Because of the state-by-state variation in nexus rules, the first step for corporations before apportioning income is to determine the states where the firm has established nexus. The firm then allocates profits to these states based on each respective state's apportionment formula and nexus rules. The different state apportionment formulas and nexus rules, however, often lead to what is termed "nowhere income."[13] Nowhere income arises because not all states have the same apportionment formula or nexus rules, and some states do not levy a corporate income tax. However, if the destination state imposes a franchise tax or a business license tax that is based on some measure of business activity, then this does not apply. Thus, some states impose corporate income tax rules that stipulate that all sales to customers in states in which the firm does not have nexus (and are not obligated pay any tax based on economic activity) are "thrown back" to the home state.

For example, a California firm that sells goods to customers in Nevada — which does not have a corporate income tax, nor any other tax based on business activity — would include Nevada sales in the numerator of the sales factor component of the California apportionment formula. If Nevada had a corporate income tax with a sales factor in the apportionment formula and the firm had established nexus, California would not require the firm to include the Nevada sales in the California corporate income tax apportionment formula. The throwback rule is applied in 24 states and the District of Columbia; 20 states do not impose a throwback rule, and four states do not impose a corporate income tax (see **Table 2**).[14]

State Apportionment Formulas. **Table 2** groups states based on their corporate income tax apportionment formula. "Even weight" implies that the each

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[11] Bureau of National Affairs, *Multistate Tax Report: 2006 Survey of State Tax Departments*, vol. 13, no. 4, Apr. 28, 2006.

[12] Alabama and Pennsylvania did not respond to the BNA survey and four states, Nevada, South Dakota, Washington, and Wyoming, do not levy a tax on corporate income.

[13] The converse is also true. Income could also be *overtaxed* because of the variety of apportionment formulas employed by states.

[14] Bureau of National Affairs, *Multistate Tax Report: 2006 Survey of State Tax Departments*, vol. 13, no. 4, Apr. 28, 2006. Recall that Alabama and Pennsylvania did not respond.

factor is weighted the same or one-third. The hybrid arrangements allow firms to choose the type of apportionment scheme that minimizes tax burden or instructs the firm to use different types of allocation based on the source of income. The most common apportionment formula is the double-weighted sales scheme. A number of states will be moving to a single-factor sales formula in the near future. By 2008, eight states will use a single-factor sales formula.

Table 2. State Corporate Income Tax Apportionment Formulas in 2006

Apportionment scheme (number of states)	States
Even-weight (9)	Alabama, Alaska, Delaware, District of Columbia, Hawaii, Kansas, Montana, North Dakota, Rhode Island.
Even-weight hybrid (3)	Missouri, firms choose either even weight or single factor sales; New Mexico, certain manufacturing firms can choose double-weight sales, otherwise even-weight; Oklahoma, firms meeting certain investment criteria can choose double-weight sales, otherwise even-weight.
Double-weight sales (17)	*Arizona, Arkansas, California, Florida, Idaho, Indiana, Kentucky, Maine, Massachusetts, New Hampshire, New Jersey, North Carolina, Tennessee, Virginia, West Virginia, Utah, and Vermont.
Double-weight sales hybrid (3)	Connecticut, double-weight sales for income derived from the sale or use of tangible personal or real property, single-factor sales for other income; Maryland, manufacturers use single-factor sales, otherwise double-weight sales; South Carolina, double-weight sales for manufacturers and dealers in tangible personal property, otherwise single-factor sales.
Single-factor sales (5)	Illinois, Iowa, Louisiana, Nebraska, Oregon.
Single-factor sales in the future (4)	*Georgia in 2008, Minnesota in 2014, New York in 2008, and Wisconsin in 2008.*
Other weight allocations (7)	(in percentages, sales- payroll-property) Georgia, 80-10-10; Michigan, 90-5-5; Minnesota, 75-12.5-12.5; New York, 60-20-20; Ohio, 60-20-20; Pennsylvania, 60-20-20; and Wisconsin, 60-20-20.
Other hybrids (2)	Colorado, firms choose between a three-factor even-weight and a two-factor (sales and property) even-weight; Mississippi, retailers, wholesalers, service companies, lessors use single-factor sales, wholesale manufacturers use even-weight three factor, retail manufacturers use three-factor, double-weighted sales.
No general corporate net *income* tax (5)	Nevada, South Dakota (bank & financial corporation excise tax), Texas (gross receipts tax), Washington, and Wyoming.

Note: * In Arizona, for firms that commit to invest more than $1 billion in 2006, the apportionment formula will be: 60-20-20 in 2007; 70-15-15 in 2008; and 80-10-10 after 2008.

Source: Commerce Clearing House, Multistate Corporate Income Tax Guide.

State Corporate Income Tax Rates. Rates on corporate income taxes vary considerably. The state with highest rate, Iowa, taxes all taxable income in excess of $250,000 at 12%. Iowa is also one of three states (Nebraska and Illinois being the others) that use a single-factor sales apportionment formula. The rates for each state are listed on the following page in **Table 3**. The highest marginal rates listed in **Table 3** do not necessarily represent the relative burden of state corporate income taxes in each state. The best measure of the relative corporate income tax burden for each state is the *average effective* marginal tax rate (AEMTR). The AEMTR would incorporate differences among states in the definition of taxable income. Nevertheless, the marginal rates do provide some information about the relative burden of corporate income taxes across states.

Table 3. State Corporate Income Tax Rates, 2006

State	Highest rate	Number of rates	State	Highest rate	Number of rates
Alabama	6.500%	one	Montana	6.750%	one
Alaska	9.400%	multiple	Nebraska	7.810%	multiple
Arizona	6.968%	one	Nevada	no tax	n/a
Arkansas	6.500%	multiple	New Hampshire	8.500%	one
California	8.840%	one	New Jersey	9.000%	multiple
Colorado	4.630%	one	New Mexico	7.600%	multiple
Connecticut	7.500%	one	New York	7.500%	one
Delaware	8.700%	one	North Carolina	6.900%	one
D.C.	9.975%	one	North Dakota	10.500%	multiple
Florida	5.500%	one	Ohio[d]	8.500%	multiple
Georgia	6.000%	one	Oklahoma	6.000%	one
Hawaii	6.400%	multiple	Oregon	6.600%	one
Idaho	7.600%	one	Pennsylvania	9.990%	one
Illinois[a]	4.800%	one	Rhode Island	9.000%	one
Indiana	8.500%	one	South Carolina	5.000%	one
Iowa	12.000%	multiple	South Dakota[e]	6.000%	multiple
Kansas	4.000%	one	Tennessee	6.500%	one
Kentucky	7.000%	multiple	Texas[f]	4.500%	one
Louisiana	8.000%	multiple	Utah	5.000%	one
Maine	8.930%	multiple	Vermont	9.750%	multiple
Maryland	7.000%	one	Virginia	6.000%	one
Massachusetts[b]	9.500%	one	Washington	no tax	n/a
Michigan	1.900%	one	West Virginia	9.000%	one
Minnesota[c]	9.800%	one	Wisconsin	7.900%	one
Mississippi	5.000%	multiple	Wyoming	no tax	n/a
Missouri	6.250%	one			

Source: Commerce Clearing House, Multistate Corporate Income Tax Guide.

a. S Corporations, partnerships, and trusts are taxed at a maximum 6.3% rate.

b. Financial institution net income is taxed at 10.5%. Corporations also pay a surtax on property located in Massachusetts and not taxed at the local level.

c. Minnesota also levies a fee based on the total payroll, property, and sales of the corporation. The fee raises the maximum tax rate and creates very slight progressivity.
d. Ohio allows firms to choose an alternative of four mills (or 0.4%) multiplied by taxable net worth.
e. South Dakota taxes only banks and financial institutions. The rates fall as net income rises from a high of 6.0% for the first $400 million to 0.25% for the amount over $1.2 billion.
f. Texas taxes "net taxable earned surplus" and adds a surtax of 0.25% on net taxable capital.

State Corporate Income Tax Revenue: 1972 to 2005

According to CRS calculations based on data from the U.S. Census Bureau, state tax revenue from state corporate income taxes grew (in nominal dollars) in all fiscal years except for 1982, 1983, 1992, 1993, 1999, 2001, and 2002. As a portion of gross domestic product (GDP), however, corporate tax revenue has declined from an annual average of 0.43% of GDP over the FY1972 to FY1982 time frame to 0.32% of GDP over the FY1995 to FY2005 time frame. State corporate income tax revenue has become a significantly smaller part of the economy over the last decade. **Table 4** reports state corporate tax revenue and GDP for states that impose a state corporate income tax.[15]

Several causes have been suggested for the relative decline in state corporate tax revenues in FY2001 and FY2002.[16] The most direct causes would be legislated changes in the tax rate, the tax base, or the compliance rules. The decline in revenue could be the result of state governments, in the aggregate, attempting to lower the tax burden on corporations. The December 2003 Fiscal Survey of States reported that states, in the aggregate, enacted net tax cuts every year from FY1995 through FY2001.[17] Even though these tax cuts were not separated into types of tax by the Fiscal Survey, it seems likely that state corporate income taxes were included in the tax cuts. Recent research has reached a similar conclusion, noting that "[S]tate tax bases have deteriorated further than the federal base because of a combination of **explicit state actions** [emphasis added] and tax avoidance/evasion by businesses."[18]

A second explanation, alluded to above, is that corporations are more effectively avoiding, or even evading taxes through aggressive tax planning.[19] The Multistate Tax Commission (MTC) concluded in a recent study that "...various corporations are increasingly taking advantage of structural weakness and loopholes in the state corporate tax systems."[20] Again, the MTC study cannot definitively separate the

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[15] The governments division of the Census Bureau collects and reports state tax collections by type of tax based on survey information from the states.

[16] William F. Fox and LeAnn Luna, "State Corporate Tax Revenue Trends: Causes and Possible Solutions," *National Tax Journal*, vol. LV, no. 3, Sept. 2002, pp. 491-508. (Hereafter cited as Fox and Luna, *State Corporate Tax Revenue Trends*.)

[17] National Association of State Budget Officers, December 2003 Fiscal Survey of States.

[18] Fox and Luna, *State Corporate Tax Revenue Trends*, p. 498.

[19] Tax avoidance is a legal means of reducing tax liability, such as buying tax-exempt bonds. In contrast, tax evasion is illegal, such as not claiming otherwise taxable income.

[20] Multistate Tax Commission, "Corporate Tax Sheltering and the Impact on State Corporate

(continued...)

revenue declines arising from policy changes and avoidance/evasion, but still concludes that tax avoidance and evasion is partly responsible for the decline in state corporate tax revenues.

Table 4. State Corporate Income Tax Revenue and Gross Domestic Product, FY1972 to FY2005

Fiscal year	State corporate tax revenue (in billions)	State corporate tax revenue as percentage of GDP	Fiscal year	State corporate tax revenue (in billions)	State corporate tax revenue as percentage of GDP
1972	$4.4	0.36%	1989	$23.9	0.44%
1973	$5.4	0.39%	1990	$21.8	0.37%
1974	$6.0	0.40%	1991	$20.4	0.34%
1975	$6.6	0.41%	1992	$21.9	0.34%
1976	$7.3	0.40%	1993	$24.2	0.36%
1977	$9.2	0.45%	1994	$25.5	0.36%
1978	$10.7	0.47%	1995	$29.1	0.39%
1979	$12.1	0.47%	1996	$29.3	0.38%
1980	$13.3	0.48%	1997	$30.7	0.37%
1981	$14.1	0.45%	1998	$31.1	0.36%
1982	$14.0	0.43%	1999	$30.8	0.33%
1983	$13.2	0.37%	2000	$32.5	0.33%
1984	$15.5	0.39%	2001	$31.7	0.31%
1985	$17.6	0.42%	2002	$25.9	0.24%
1986	$18.4	0.41%	2003	$28.5	0.26%
1987	$20.5	0.43%	2004	$30.8	0.26%
1988	$21.6	0.42%	2005	$38.7	0.31%

Source: CRS calculations based on U.S. Census Bureau, Governments Division and Bureau of Economic Analysis.

A third explanation is that cyclical economic changes have led to the decline in state corporate tax revenues. Note that cyclical economic effects are unrelated to the behavior of policymakers or corporations. The effect of economic cycles on revenue is difficult to identify because the legislated changes and the corporate behavior described above likely exacerbated (or attenuated) the cyclical economic changes. Recent research into the causes of state budget deficits, suggested that "the current [cumulative state] deficit is largely structural...."[21] The implication of this finding is

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[20] (...continued)
Income Tax Revenue Collections," July 15, 2003, from the *Executive Summary*.

[21] Brian Knight, Andrea Kusko, and Laura Rubin, "Problems and Prospects for State and (continued...)

that policy (structural) changes like tax cuts and discretionary spending increases generated state budget deficits in FY2002 and FY2003, not the machinations of the economic cycle.

Finally, changes to the federal corporate income tax code, which have reduced the base of most state corporate income tax systems, could explain part of the decline in state corporate income tax revenue. A recent report, however, noted that "nearly two-thirds [of states] refused to go along with President Bush's 2001-2004 'bonus depreciation.'...."[22] The next section discusses the interaction between federal and state corporate income taxes in more detail.

Issues for Congress

State corporate income taxes are of interest to Congress for primarily two reasons: interstate commerce oversight and tax interaction. The following section analyzes these two aspects of state corporate income taxation that are most directly affected by congressional action.

Interstate Commerce Regulation and Oversight

The interstate commerce regulation and tax interaction issues have attracted interest for three principal reasons: (1) the complex Internet sales tax debate; (2) the recent federal business tax cuts; and (3) state fiscal issues. The link between the Internet sales tax debate and state corporate income taxes is complicated and centers on the prohibition on states reaching beyond their borders to compel out-of-state vendors to collect sales and use taxes.[23] As a general rule, a state can require a vendor to collect sales and use taxes only if the vendor has "substantial nexus" in the state.[24] Typically, the substantial nexus standard is satisfied if the vendor has a physical presence in the state.[25] Thus, remote Internet transactions, where the vendor has no physical presence in the customer's home state, do not have the sales and use tax added to the price of the good by the vendor. These types of transactions have

[21] (...continued)
Local Governments," paper presented at Urban Institute Seminar, State Fiscal Crises: Causes, Consequences, and Solutions, Apr. 5, 2003.

[22] McIntyre, Robert S and T.D. Coo Nguyen, "State Corporate Income Taxes 2001-2003," *State Tax Notes*, March 7, 2005, pp. 685-712.

[23] A *sales* tax is levied at the time of transaction and is tax on the sale. The companion *use* tax is a tax on the *use* of a good or service. Technically, remote vendors would collect a use tax because the product is going to be used in the customer's home state.

[24] The limitation arises from the due process and commerce clauses in the U.S. Constitution.

[25] For more on the sales tax issue, see CRS Report RL31252, *Internet Commerce and State Sales and Use Taxes*, by Steve Maguire.

grown considerably over the last several years and have contributed to the erosion of the sales and use tax base of most states.[26]

In an effort to persuade Congress to allow states to compel remote vendors to collect use taxes, a coalition of states has been working together to establish a uniform sales and use tax agreement. The coalition of states identifies this agreement as the "Streamlined Sales and Use Tax Agreement" (SSUTA).[27] States that sign onto the sales tax compact would have already implemented uniform definitions and compliance rules, thus easing the administrative burden of remote vendor collection. Two bills in the 109th Congress would grant states these rights.[28] If either of these bills were enacted and the states satisfied the requirements for qualification, remote vendors in the compact states would collect use taxes for shipments to states where the vendor does not have a substantial nexus.

Some vendors are concerned that collecting use taxes for a state in which they do not have nexus, could trigger income or other business tax liability. However, past court decisions and the landmark P.L. 86-272 established physical presence as the standard for sufficient nexus for corporate income taxes for firms selling tangible goods. The law, P.L. 86-272, was passed shortly after the Supreme Court issued a ruling that seemed to offer an ambiguous definition of "sufficient nexus." The Supreme Court language that generated this concern (as cited in the Senate report on S. 2524, the Senate version of what became P.L. 86-272) is reproduced below:

> We conclude that the net income from the interstate operations of a foreign corporation may be subjected to State taxation provided the levy is not discriminatory and is properly apportioned to *local activities within the taxing State forming sufficient nexus to support the same.* [Emphasis added] (358 U.S. 450 at 452)[29]

The term "local activities" was deemed too ambiguous by policy makers and businesses. The Senate report provided the following as reasoning behind the enacted legislation (P.L. 86-272) that clarified the definition:

> Persons engaged in interstate commerce are in doubt as to the amount of local activities within a State that will be regarded as forming a sufficient "nexus," that

[26] Donald Bruce and William F. Fox, "State and Local Sales Tax Revenue Losses from E-Commerce: Estimates as of July 2004," *Center for Business and Economic Research*, University of Tennessee, July 2004. Bruce and Fox estimated this erosion from electronic commerce alone will result in states losing between $21.5 billion and $33.7 billion in 2008. There is considerable debate, however, about the size of the revenue loss.

[27] For more on the SSUTA, see CRS Report RS22387, *The Streamlined Sales and Use Tax Agreement: A Brief Description*, by Steven Maguire.

[28] S. 2152 and S. 2153.

[29] U.S. Congress, Senate Committee on Finance, *State Income Taxes — Interstate Commerce*, Senate report to accompany S. 2524, S.Rept. 658, 86th Cong., 1st sess. (Washington: GPO, Aug. 11, 1959) p. 2549.

> is, connection, with the State to support the imposition of a tax on net income from interstate operations and "properly apportioned" to the State.[30]

The legislation passed by Congress clarified nexus by identifying those activities which would *not* establish nexus. Generally, soliciting sales of tangible goods in a state for shipment by common carrier from locations outside the state into the state, would not be sufficient to trigger nexus. Thus, for tangible goods shipped across state lines, state net corporate income taxes are levied at the *source* not the *destination* of the product. The home state of the customer receiving the goods cannot levy a state corporate income tax on the remote business by virtue of the transaction. The issue of intangible goods and services was not addressed directly by P.L. 86-272.

The Internet sales and use tax debate has revived a discussion of what constitutes nexus for a corporate income tax. Clarified nexus standards, however, do not seem destined to fundamentally alter the administration of state corporate income taxes. As noted above, current laws would already shield out-of-state vendors from corporate income tax liability if the business were only soliciting the sale of tangible goods into the state. As for intangibles goods and services, policymakers would likely insert language to ensure that a corporation would not establish nexus by virtue of collecting sales and use taxes.[31]

Tax Interaction

The "Jobs and Growth Tax Relief Reconciliation Act of 2003" (JGTRRA, P.L. 108-27), included several provisions that reduce the federal tax burden on business investment.[32] The federal tax changes also affected state taxes because of the interaction between federal taxes and state taxes on corporations. Generally, states use the federal tax code as the base for the state income tax (see the background section titled "federal starting point").[33] Thus, when the federal definition of the tax base changes, so does the state definition of income.[34]

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[30] Ibid.

[31] Section 7(a) of S. 1736 from the 108th Congress states that "[N]othing in this Act shall be construed as subjecting sellers to franchise taxes, income taxes, or licensing requirements of a state or political subdivision thereof, nor shall anything in this Act be construed as affecting the application of such taxes or requirements or enlarging or reducing the authority of any State to impose such taxes or requirements."

[32] For more on the business tax cuts in P.L. 108-27, see CRS Report RL32034, *The Jobs and Growth Tax Relief Reconciliation Act of 2003 and Business Investment*, by Gary Guenther.

[33] Many states, as noted earlier, have decided not to incorporate recent federal changes. For more, see McIntyre, Robert S and T.D. Coo Nguyen, "State Corporate Income Taxes 2001-2003," *State Tax Notes*, Mar. 7, 2005, pp. 685-712.

[34] Another issue is fiscal policy coordination between the federal, state, and local governments. If state governments do not adopt the federal tax changes, then the fiscal stimulus of federal tax policy is muted by state non-compliance. For more on the countervailing fiscal stimulus effects, see CRS Report RL31936, *General Revenue Sharing: Background and Analysis*, by Steven Maguire.

JGTRRA included two temporary provisions designed to accelerate the depreciation of capital assets purchased by businesses. The first is a temporary increase in the amount of a capital expenditure that a small business can deduct in the year of purchase.[35] The larger deduction reduces the base of the federal corporate income tax and thus the state corporate income tax base for those states that link directly to the federal tax code. The change in federal law may generate a significant revenue loss in the short run for those states that remain linked to the federal definition of business income.[36] This provision would have expired on December 31, 2005, but was extended through December 31, 2007, by the *American Jobs Creation Act of 2004,* (P.L. 108-357).

A second JGTRRA provision allowed for "bonus depreciation" for certain capital expenditures. Businesses that buy qualified capital assets before January 1, 2005 could have immediately deducted 50% of the purchase price from gross income. The combined effect of the two original provisions (not including the 2004 extension of the small business deduction described above) would cost states an estimated $2.7 billion. If the provisions were made permanent, the cost to the states has been estimated to rise to $17.7 billion over the 2004-2013 budget window.[37]

Proponents of the accelerated depreciation provisions, however, would argue that over the long run, increased business investment would likely lead to stronger economic growth and in turn *more* corporate income tax revenue. The long run net budget outcome of the two countervailing forces is uncertain and relies on debatable assumptions about the response of businesses to investment incentives delivered through the federal tax code.

The JGTRRA provisions adversely affect state budgets in the short run because the tax relief is delivered through changes in the base. If Congress were concerned primarily with the impact of federal corporate income tax law changes on the states, changes in corporate income tax *rates* would have minimal impact on the states. Unlike changes in the tax base, a federal tax rate change would not directly affect state corporate income taxes.

Legislative Activity

Legislation in the 109th Congress would have authorized states to compel remote vendors to collect sales and use taxes. Even though the bills address the collection of state sales and use taxes, not state corporate income taxes, some policymakers believe that the issues are similar to those surrounding the state corporate income tax. Related legislation would have established a "physical presence" standard for

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[35] 26 U.S.C. § 179.

[36] According to a recent analysis by the Center on Budget and Policy Priorities, "... 17 states stand to lose an estimated $1.1 billion in 2004 and another $600 million by the end of 2005." Nicholas Johnson, "Federal Tax Changes Likely to Cost States Billions of Dollars in Coming Years," *Center on Budget and Policy Priorities*, June 5, 2003, p. 5.

[37] Nicholas Johnson, "Federal Tax Changes Likely to Cost States Billions of Dollars in Coming Years," *Center on Budget and Policy Priorities*, June 5, 2003, Tables 2 and 3.

business activity taxes (BATs, primarily state corporate income taxes). In the 109th Congress, H.R. 1956, which on June 28, 2006, the House Judiciary Committee approved, addresses the nexus standards for purposes of levying a state corporate income tax. A very similar companion bill, S. 2721, was introduced in the Senate on May 4, 2006.

S. 2152 and S. 2153. Two almost identical bills, each given the title of the "Sales Tax Fairness and Simplification Act" (STFSA), would authorize states to require out-of-state vendors to collect sales and use taxes. The authority would only be granted once "... 10 states comprising at least 20 percent of the total population of States imposing a sales tax ... have petitioned for membership under the [Streamlined Sales and Use Tax] Agreement...."[38] Under S. 2152, businesses with less the $5 million in sales would be exempt from the collection requirement.[39] In contrast, under S. 2153, the Administrator of the Small Business Administration would establish the small business exemption with input from stakeholders. Under both S. 2152 and S. 2153, businesses that collect the tax would receive "reasonable compensation" from the states for expenses incurred for "administration, collection and remittance of sales and use taxes."[40]

The connection to states through the sales and use tax administration has raised concern that implementing the STFSA could pave the way for states to claim that out-of-state vendors have established nexus. Section 7 of the legislation, however, outlines the limitations of the proposed SSUTA. The legislation explicitly states that "No obligation imposed by virtue of the authority granted by section 4 shall be considered in determining whether a seller has a nexus with any State for any tax purpose."[41]

H.R. 1956 and S. 2721. Under current law, sales of "tangible personal property" into a state are not sufficient to trigger tax liability. H.R. 1956 would expand the protection beyond tangible personal property to include services.[42] This expansion would have had a significant effect on the 32 states where "... an employee's solicitation of services while in the state for six or fewer days would create nexus."[43]

In addition to the expansion of protected interactions, this legislation would have also defined "physical presence" as the standard for collecting business activity taxes. Under this proposal, physical presence would be established and a business activity tax allowable if:

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[38] Section 4(a).

[39] Section 4(d).

[40] Section 6(a).

[41] Section 7(b).

[42] Generally, H.R. 1956 strikes the "tangible personal property" identifier and inserts "or transaction." This change would presumably expand the "protected" activity to include service transactions.

[43] BNA, Apr. 25, 2003.

- the individual or business is physically within the state for 21 days (not including trips to buy goods or services for the business; gathering news for print or other media; meeting with government officials for purposes other than selling goods and services; attending training or educational purposes; or participating in charitable events);

- the individual or business uses the services of another individual or business for 21 days and the hired individual or business does not do business for any other entity; or

- the individual or business leases or owns tangible personal property or real property in the state for more than 21 days.

An important exception to the "21-day rule" is included in the legislation and is related to live performances and sporting events. Generally, the 21-day minimum is replaced with one day for live performances and participation in sporting events where at least 100 spectators are present. There is not a uniform number of days under current state laws, but, most states impose a minimum that is less than 21 days.

Analysis. The streamlined sales tax legislation, S. 2152 and S. 2153, would require states to simplify their sales and use tax systems before granting them the authority to compel remote vendors to collect the sales and use tax. From an economic perspective, reduced complexity and compliance costs for businesses, not just those engaged in interstate commerce, would likely increase the efficiency of the tax system. To the extent that the changes imposed by the legislation would treat all transactions neutrally, they would also increase the equity of the tax system.

The critical concern is how stringent the SSUTA enforcement will be if implemented. If the agreement is not strictly enforced, then any gains in economic efficiency are lost and the anticipated improved equity diminished. The de minimus standards could be administratively difficult to enforce and could create loopholes through which businesses could circumvent the intent of the SSUTA. These standards could be eliminated if the SSUTA were strictly enforced and the rules on what was taxable were truly uniform from state to state. The ease of compliance with a truly uniform base would render seemingly arbitrary minimum sales thresholds unnecessary.[44] Even though the statutory burden of the sales and use tax falls on consumers, the SSUTA legislation may be considered in conjunction with other legislation that more directly addresses how states tax businesses.

The BAT legislation in the 109th Congress, H.R. 1956 and S. 2721, is intended to further modify the state taxation of businesses engaged in interstate commerce. The legislation would impose new regulations on how states impose taxes on multi-state businesses, through (1) imposing uniformity on the time component of nexus determination and (2) expanding the definition of goods and services subject to the nexus rules. The legislation would not directly address the complexity of the state

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[44] Charles McClure and Walter Hellerstein, "Congressional Intervention in State Taxation: A Normative Analysis of Three Proposals," *State Tax Notes*, Mar. 1, 2004, p. 732.

corporate income tax structure — in particular, the various apportionment formulas (and allocation rules) described earlier.

Many economists and other researchers who analyze state corporate income taxes agree that the critical issue with the current state corporate income tax structure is the variability in the allocation and apportionment of corporate income from state to state. The current mosaic of state corporate income tax rules creates economic inefficiencies for the following reasons: (1) relatively high compliance costs, (2) increased opportunities for tax planning by businesses, and (3) potential gaps and overlaps in taxation. The new regulations as proposed in H.R. 1956 and S. 2721, would exacerbate the underlying inefficiencies because the threshold for business — the 21-day rule, higher than currently exists in most states — would increase opportunities for tax planning leading to more “nowhere income.” In addition, expanding the number of transactions that are covered by P.L. 86-272 would have expanded the opportunities for tax planning and thus tax avoidance and possibly evasion.

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MISCELLANEOUS INCOME TAX CREDITS

2005
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NAME (LAST, FIRST)	SOCIAL SECURITY NUMBER/FEIN
SPOUSE'S NAME (LAST, FIRST)	SPOUSE'S SOCIAL SECURITY NUMBER/FEIN

CORPORATION NAME	MITS/MO I.D. NUMBER	CHARTER NUMBER

- **Each credit will apply against your tax liability in the order they appear on the form.**
- **If you are claiming more than 10 credits, attach an additional sheet.**
- **If you are filing a combined return, both names must be on the certificate/form from the issuing agency.**

USE THIS FORM TO CLAIM INCOME TAX CREDITS ON FORM MO-1040, MO-1120, MO-1120A, MO-1120S, OR MO-1041. ATTACH TO FORM MO-1040, MO-1120, MO-1120A, MO-1120S, OR MO-1041.

	BENEFIT NUMBER (Assigned by DED only)	ALPHA CODE (3 Characters) from back	CREDIT NAME		• YOURSELF • one income • corporation income • fiduciary Column 1	• SPOUSE on a combined return • corporation franchise Column 2	DOR USE ONLY
1.				1	00	00	
2.				2	00	00	
3.				3	00	00	
4.				4	00	00	
5.				5	00	00	
6.				6	00	00	
7.				7	00	00	
8.				8	00	00	
9.				9	00	00	
10.				10	00	00	

11. SUBTOTALS — add Lines 1 through 10. . . . . 11 | 00 | 00

12. Enter the amount of the tax liability from Form MO-1040, Line 29Y for yourself and Line 29S for your spouse, or from Form MO-1120, Line 13 plus Line 14 for income or Line 15 for franchise; Form MO-1120A, Line 6 for income or Line 10c for franchise; Form MO-1120S, Line 15 for franchise tax; or Form MO-1041, Line 17. . . . . 12 | 00 | 00

13. Total Credits — add amounts from Line 11, Columns 1 and 2. (Enter here and on Form MO-1120, Line 17; Form MO-1120A, Line 12; Form MO-1120S, Line 16; Form MO-1040, Line 36; or Form MO-1041, Line 18.) Line 13 cannot exceed the amount on Line 12, unless the credit is refundable. . . . . 13 | 00

For Privacy Notice, see the Form MO-1040 instructions.

Instructions

- If you are filing an individual income tax return and you have only **one** income, use Column 1.
- If you are filing a combined return and **both** you and your spouse have income, use Column 1 for yourself and Column 2 for your spouse.
- If you are filing a fiduciary return, use Column 1.
- If you are filing a corporation income tax return, use Column 1. If you are filing a corporation franchise tax return, use Column 2.
- If you are a shareholder or partner and claiming a credit, you must attach a copy of the shareholder listing, specifying your percentage of ownership.

Benefit Number:
Only the credits issued by the Department of Economic Development (DED) will have a benefit number. The number is located on your Certificate of Eligibility Schedule (Certificate).

Alpha Code:
This is the three character code located on the back of the form. Each credit is assigned an alpha code to ensure proper processing of the credit claimed.

Miscellaneous tax credits are administered by various agencies. For more information, forms, and approval to claim these credits, contact the following departments. Visit **http://www.dor.mo.gov/tax/taxcredit** for a description of each credit and more contact information for agencies administering each credit. *Approved by the Issuing Agency

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

PO BOX 118, JEFFERSON CITY, MO 65102-0118
http://www.ded.missouri.gov

Alpha Code	Name of Credit and Phone Number	Attach to Form MO-TC
BEC	Bond Enhancement — (573) 526-4194	Certificate*
BFC	New or Expanded Business Facility — (573) 751-0717	Schedule 150, Fed. K-1, Form 4354
BJI	Brownfield "Jobs and Investment" — (573) 522-8004	Certificate*
CBC	Community Bank Investment — (573) 751-9051	Certificate*
DPC	Development Tax Credit — (573) 751-0717	Certificate*
DTC	Demolition — (573) 522-8004	Certificate*
DFH	Dry Fire Hydrant — (573) 751-0717	Certificate*
EZC	Enterprise Zone — (573) 751-0717	Schedule 250, Fed. K-1, Form 4354
FDA	Family Development Account — (573) 526-0717	Certificate*
FPC	Film Production — (573) 751-0717	Certificate*
HPC	Historic Preservation — (573) 522-8004	Certificate*
ISB	Small Business Investment (Capital) — (573) 751-0717	Certificate*
MQJ	Missouri Quality Jobs (573) 751-0717	Certificate*
NAC	Neighborhood Assistance — (573) 751-0717	Certificate*
NEZ	New Enhanced Enterprise Zone — (573) 751-0717	Certificate*
NEC	New Enterprise Creation — (573) 751-0717	Certificate*
RCC	Rebuilding Communities — (573) 751-0717	Certificate*
RCN	Rebuilding Communities and Neighborhood Preservation Act — (573) 522-8004	Certificate*
REC	Qualified Research Expense — (573) 751-0717	Certificate*
RTC	Remediation — (573) 522-8004	Certificate*
SBI	Small Business Incubator — (573) 751-0717	Certificate*
SBG	Small Business Guaranty Fees — (573) 751-0717	Certificate*
SCC	Missouri Business Modernization and Technology (Seed Capital) — (573) 751-0717	Original Certificate*
TDC	Transportation Development — (573) 751-0717	Certificate*
WGC	Wine and Grape Production — (573) 751-0717	Certificate*
YOC	Youth Opportunities — (573) 751-0717	Certificate*

MISSOURI DEVELOPMENT FINANCE BOARD

PO BOX 567, JEFFERSON CITY, MO 65102-0567
http://www.mdfb.org • (573) 751-8479

Alpha Code	Name of Credit	Attach to Form MO-TC
BUC	Missouri Business Use Incentives for Large Scale Development (BUILD)	Certificate*
DRC	Development Reserve	Certificate*
EFC	Export Finance	Certificate*
IDC	Infrastructure Development	Certificate*

MISSOURI DEVELOPMENT HOUSING COMMISSION

3435 BROADWAY, KANSAS CITY, MO 64111
http://www.mhdc.com

Alpha Code	Name of Credit and Phone Number	Attach to Form MO-TC
AHC	Affordable Housing Assistance — (816) 759-6662	Certificate*
LHC	Missouri Low Income Housing — (816) 759-6668	Eligibility Statement, Fed. K-1, 8609A, 8609 (first yr.)

MISSOURI DEPARTMENT OF REVENUE

PO BOX 2200, JEFFERSON CITY, MO 65105-2200
http://www.dor.mo.gov/tax • (573) 526-8733 or (573) 751-4541

Alpha Code	Name of Credit	Attach to Form MO-TC
ATC	Special Needs Adoption	Form ATC
BFT	Bank Franchise Tax	Form INT-2, Form BFT, Schedule BF
BTC	Bank Tax Credit for S Corporation Shareholders	Form BTC, Form INT-2, Fed. K-1
DAC	Disabled Access	Federal Form 8826 and Form MO-8826

MISSOURI AGRICULTURAL AND SMALL BUSINESS DEVELOPMENT AUTHORITY

PO BOX 630, JEFFERSON CITY, MO 65102-0630
http://www.mda.mo.gov • (573) 751-2129

Alpha Code	Name of Credit	Attach to Form MO-TC
APU	Agricultural Product Utilization Contributor	Certificate*
NGC	New Generation Cooperative Incentive	Certificate*

MISSOURI DEPARTMENT OF NATURAL RESOURCES

JEFFERSON CITY, MO 65105
http://www.dnr.missouri.gov

Alpha Code	Name of Credit and Phone Number	Attach to Form MO-TC
CPC	Charcoal Producers — (573) 751-4817	Certificate*
WEC	Processed Wood Energy — (573) 751-3443	Certificate*

MISSOURI DEPARTMENT OF SOCIAL SERVICES

3515 AMAZONAS DR., JEFFERSON CITY, MO 65109
http://www.dss.missouri.gov • (573) 751-8934

Alpha Code	Name of Credit	Attach to Form MO-TC
MHC	Maternity Home	Certificate*

MISSOURI DEPARTMENT OF PUBLIC SAFETY

PO BOX 749, JEFFERSON CITY, MO 65102-0749
http://www.dps.mo.gov • (573) 751-4905

Alpha Code	Name of Credit	Attach to Form MO-TC
DVC	Shelter for Victims of Domestic Violence	Certificate*

MISSOURI DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION

PO BOX 480, JEFFERSON CITY, MO 65102-0480
http://www.dese.mo.gov • (573) 751-4192

Alpha Code	Name of Credit	Attach to Form MO-TC
SMC	Sponsorship and Mentoring Program	Certificate*

MISSOURI DEPARTMENT OF HEALTH DIVISION OF SENIOR SERVICES

PO BOX 570, JEFFERSON CITY, MO 65102-0570
http://www.dhss.missouri.gov • (800) 235-5503

Alpha Code	Name of Credit	Attach to Form MO-TC
SCT	Shared Care	Must Register Each Year With Division of Aging—Attach Form MO-SCC

Individuals with speech/hearing impairments may call TDD (800) 735-2966 or fax (573) 526-1881.

Trust Fund and Charitable Organization Contributions

Many Missourians will overpay their Missouri income tax and as a result will receive a refund for the amount that they overpaid; even if the taxpayer did not overpay, they are still allowed to make a donation to specific funds. Missouri law allows taxpayers to donate to the following funds:

Taxpayers may designate $2 or more on individual returns or $4 or more on combined returns to the following funds, all of which are administered by the State Treasurer.

Children's Trust Fund- (Section 143.1000, RSMo)

Veteran's Trust Fund- (Section 143.1001, RSMo)

Home Delivered Meals Trust Fund- (Section 143.1002, RSMo)

National Guard Trust Fund- (Section 143.1003, RSMo)

Taxpayers may designate $1 or more on individual returns or $2 or more on combined returns to the following funds, which are administered by the State Treasurer.

Missouri Military Family Relief Fund- (Section 143.1004, RSMo) (This designation for the fund expires in 2011 for the 2010 tax year.)

Childhood Lead Testing Fund- (Section 143.1006, RSMo)

Workers Memorial Fund- (Section 143.1025, RSMo)

Taxpayers may designate all or part of their refund to:

General Revenue Fund- (Section 143.1020, RSMo)

Missouri Public Services Health Fund (Section 143.1007, RSMo)

Charitable Organization Funds Authorized to Solicit Donations from Taxpayers via the Income Tax Form

Taxpayers may elect to donate ($1-$200) to the following charitable organizations:

American Cancer Society, Heartland Division Inc., Fund

ALS Lou Gehrig's Disease Fund

American Lung Association of Missouri Fund

Muscular Dystrophy Association of Missouri Fund

Arthritis Foundation Fund

National Multiple Sclerosis Society Fund

American Diabetes Association Gateway Area Fund

American Heart Association Fund

March of Dimes Fund

(This information was obtained from Section 143.1005, RSMo)

Frequently Asked Questions - Corporation Income Tax

General Information

- What form do I use to file an amended return?
- If I am a Limited Liability Company (LLC) how do I file?
- What is the tax rate for Missouri corporation income tax?
- How do I pay tax on my S Corporation?
- If my company for any reason is required to file a short period return, when is my Missouri return due?
- What if my Missouri due date falls before the federal due date?
- What are additions to tax and interest charges?
- If I file a Federal Form 990, 990EZ or 990PF, what do I file for Missouri?
- If I am filing an amended Missouri return to carry back a federal net operating loss, what documentation should I include?
- What do I need to provide to the Missouri Department of Revenue if I claim non-business or non-Missouri source income?
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- Does Missouri have a claim of right doctrine similar to the Internal Revenue Service?
- What is the MITS/MO ID number that is asked for on the Form MO-1120?
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- Who can discuss a corporate income tax question concerning payments, adjustments, etc. with the Missouri Department of Revenue
- Does Missouri require the 50% depreciation to be added back?
- For federal purposes, our company carried back a net operating loss 5 years with the Internal Revenue Service. Are we required to carry back our net operating loss 5 years on our Missouri return?

Net Operating Losses

- If a taxpayer has incurred a net operating loss, when is a net operating loss modification computed?
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- If a taxpayer has claimed a net operating loss deduction and in the year of the initial loss Missouri addition modifications are less than its subtraction modifications, does it have to compute a net operating loss modification?

- What are Missouri addition modifications for purposes of Section 143.431.4 RSMo Cum. Supp. 2004?
- What are Missouri subtraction modifications for purposes of Section 143.431.4 RSMo Cum. Supp. 2004?
- If the net operating loss deduction is composed of net operating loss amounts from more than one year, is there more than one net operating loss modification?
- If more than one net operating loss modification is computed, in what order are the amounts computed?
- When did SB 1394 become effective?
- Can line 1 on the Missouri return be zero?
- If line 1 on Form Mo-1120 is negative and the corporation has net addition modifications, i.e., the addition modifications exceed the subtraction modification for that year, does the corporation have to file Form MO-5090 for the year of the loss?
- An affiliated group of corporations that files a consolidated federal income tax return may elect to file a consolidated Missouri income tax return. If the affiliated group incurs a consolidated net operating loss and has net addition modifications on its consolidated Missouri return, does the affiliated group have to file Form MO-5090?
- An affiliated group of corporations files a consolidated federal income tax return but does not file a consolidated Missouri income tax return. Some members of the group file separate company Missouri returns. If a separate company incurs a net operating loss and has net addition modifications on its separate company Missouri return, does the separate company have to file Form MO-5090?

General Information

What form do I use to file an amended income tax return?

For tax years beginning January 1, 1993, the same form is used to file an amended return that was used to file the original return. For tax years prior to 1993, the Form MO-1120X is used. Forms may be obtained by calling (800) 877-6881 or (573) 751-5337 or downloading from our tax forms page or by fax at (573) 751-4800.

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If I am a Limited Liability Company (LLC), how do I file?

LLC's shall be classified consistent with Federal income tax purposes. If for federal purpose you are treated as a corporation and file a Federal Form 1120 then you will be treated as a corporation with Missouri and would file a Form MO-1120. (Section 347.187.2, RSMo) LLC's are not subject to Franchise Tax.

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What is the tax rate for Missouri corporation income tax?

For tax years beginning on or after September 1, 1993, the tax rate is 6.25 percent. For tax years before September 1, 1993, the tax rate is five percent, except for tax years 1990 and 1991 when the rate was graduated.

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How do I pay tax on my S Corporation?

For Missouri income tax purposes, the S Corporation income tax return is for informational purposes only. The tax is paid by the shareholder on their Missouri individual income tax return. However, a Form MO-1120S return must be filed to fulfill the S Corporation's franchise tax liability, and payment of franchise tax is due if the corporation's assets are greater than $1 million in or apportioned to Missouri.

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If my company for any reason is required to file a short period return, when is my Missouri return due?

Your Missouri return is due the 15th day of the 4th month following the year end. If your short period return ended August 31, 2003, then your Missouri corporation return would have been due December 15, 2003. Missouri does not follow the federal guidelines for due dates on short period returns.

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What if my Missouri due date falls before the federal due date?

You must file and pay an estimated return by the original Missouri due date and when the federal return is completed, file an amended Missouri return.

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What are additions to tax and interest charges?

For taxable periods ending December 31, 2005, additions to tax are imposed for **failure to file** by April 15, 2006, at the rate of 5 percent per month, not to exceed 25 percent of the unpaid balance. Additions to tax are imposed for **failure to pay** by April 15, 2006, at the rate of 5 percent of the unpaid balance.

Interest is imposed on the portion of your Missouri tax liability that is not received on or before April 15, 2006. Simple interest is charged on all delinquent taxes at the rate of 7 percent, beginning January 1, 2006. For assistance in calculating additions to tax and interest, click here.

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If I file a Federal Form 990, 990EZ or 990PF, what do I file for Missouri?

Any corporation filing a Federal Form 990, 990EZ or 990PF is **not** required to file a Missouri corporation income tax return and should **not** send a copy of the federal form to the Department of Revenue.

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If I am filing an amended Missouri return to carry back a federal net operating loss, what documentation should I include?

If your consolidated federal income is positive and you are carrying back a separate company loss, attach a copy of the consolidated Federal Form 1120 to document there was no consolidated loss to be carried back. If your consolidated federal return was a loss for 2004 and the previous tax periods are consolidated losses, attach a copy of the consolidated Federal Form 1120 for 2004 and the consolidated Federal 1120 for the tax period being amended on a separate company basis. For tax periods that your consolidated and separate company incur a net operating loss that is carried back, attach a copy of the consolidated Federal Form 1139. Also include a revised income statement for the loss year and the amended tax period and a schedule showing the calculation of the federal income tax deduction on the amended return.

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What do I need to provide to the Missouri Department of Revenue if I claim non-business or non-Missouri source income?

A schedule must be attached that clearly states the nature and/or source of the non-business income in order to be **considered** by the Missouri Department of Revenue. The schedule must state the reasons that the income is being allocated. For example, a corporation owns a ten story building. The first two stories are used for the corporation's headquarters and the remaining eight floors are rented to an unrelated company. The rental income for the remaining eight floors is non-business income as it is incidental to the corporation's main business activity.

The only items of income that will be allowed as a deduction as non-Missouri source income is interest from non-Missouri municipal bonds and dividends.

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What information must I provide to the Missouri Department of Revenue if I am filing an amended Missouri consolidated federal/separate Missouri corporation income tax return due to a federal audit or a federal amended return?

Federal audits and federal amended returns may contain numerous pages. When filing the Missouri amended income tax return, not all of the federal audit or amended return is needed. The minimum information needed is the consolidated federal tax liability (federal audit or federal amended - this information has to be from the Internal Revenue Service or Form 1120X); separate company adjustments (adjustments affecting the amended Missouri return); income statement (or summary of positive federal taxable income companies) before and after federal changes; and federal income tax calculation (before and after federal changes).

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Does Missouri have a claim of right doctrine similar to the Internal Revenue Service?

No. Missouri does not have a claim of right doctrine similar to the Internal Revenue Service. Form MO-1120, Line 1, is the federal taxable income reported to the Internal Revenue Service and the federal income tax deduction is based on Federal Form 1120, Schedule J. No additional modifications are allowed on the Missouri income tax return related to the claim of right doctrine calculations on the federal income tax return.

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What is the MITS/MO ID number that is asked for on the Form MO-1120?

A MITS/MO ID number is assigned to all corporations registered with the Missouri Department of Revenue. This number is used to locate financial information associated with the corporation. This includes original returns, estimated tax payments, Form MO-7004 payments, etc. Every Form MO-1120 filed must have a MITS/MO ID number on it. A return without this number or one with an incorrect number may cause a delay in processing.

If you do not have a MITS number, or need to locate the MITS number, an officer may call the Missouri Department of Revenue, Business Tax Registration at (573) 751-5860.

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How does a corporation compute its Missouri taxable income on Form MO-MS?

The corporation must include in its Form MO-MS its percentage of ownership of the partnership's or Subchapter S Corporation's factors. For example, Company C owns 40 percent of Partnership P. The corporation does not have any property, payroll, or sales except for in its ownership of the partnership. The corporation would take 40 percent of the partnership's property, payroll, and sales everywhere and Missouri only and use these amounts to complete the Form MO-MS.

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How are Qualified Subchapter S Subsidiaries (QSSS) treated for Missouri income and franchise taxes?

QSSS's are treated the same way for Missouri income tax purposes as they are treated with the Internal Revenue Service. One Form MO-1120S is filed under the parent's name and includes all of the activity of the parent and subsidiaries. However, for Missouri franchise tax purposes (Form MO-FT), each company (parent and subsidiaries) must file a separate Form MO-FT. For example, Company P and QSSS companies S1 and S2 file a Federal Form 1120S as parent and Qualified Subchapter S Subsidiaries. Company P would file Form MO-1120S as Company P and subsidiaries. Company P would complete Form MO-FT on just its balance sheet items. Subsidiaries S1 and S2 will file a separate Form MO-1120S, mark the box indicating the filing is for Franchise Tax Only and complete Form MO-FT on each company's balance sheet. Each company would be responsible for paying their franchise tax on the separate Form MO-1120S.

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Who can discuss a corporate income tax question concerning payments, adjustments, etc. with the Missouri Department of Revenue?

General questions that do not address confidential information filed with the Missouri Department of Revenue may be discussed with anyone. Confidential information (including any payment received, return, adjustment, extension filed, etc.) can only be discussed with an officer of the corporation, the preparer (or any member of the preparer's firm or if internally prepared, any member of the internal staff) if the authorization box is checked on Form MO-1120, Page 1, or Form MO-1120S, Page 1, or a person who has a Missouri power of attorney on file (Form 2827).

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Does Missouri require the 50% depreciation to be added back?

No. The provision requiring the adding back of bonus depreciation includes property purchased on or after July 1, 2002 but before July 1, 2003, in determining if the bonus depreciation must be used as a Missouri modification. Property purchased before July 1, 2002 and after June 30, 2003, does not qualify for the modification.

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For federal purposes, our company carried back a net operating loss 5 years with the Internal revenue Service. Are we required to carry back our net operating loss 5 years on our Missouri return?

Yes, If the loss for federal purposes is carried back 5 years, the same tax periods must be amended for state tax purposes.

Corporations that file a Missouri return with a federal net operating loss (NOL) must treat the loss under the provisions of the INternal Revenue Code. Corporations that file a consolidated federal and separate Missouri return shall compute the separate federal taxable income as if each member filed a separate federal return. The corporation is bound by the federal return election to carry losses forward or back, (i.e., if the loss is carried back on your federal return, the separate company loss must be carried back).

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Net Operating Losses

If a taxpayer has incurred a net operating loss, when is a net operating loss modification computed?

A net operating loss modification is computed when a net operating loss deduction is claimed. If there was a net operating loss for the tax year 2004 and the taxpayer carried it back two years and claimed a net operating loss deduction on an amended federal return for tax year 2002, then a net operating loss modification would be computed for the 2002 amended Missouri return.

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Is the Net Operating Loss Modification computed for the year of the loss?

No, it is computed for the year a net operating loss deduction is claimed.

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If a taxpayer has claimed a net operating loss deduction and in the year of the initial loss Missouri addition modifications are less than its subtraction modifications, does it have to compute a net operating loss modification?

No, there is no net operating loss modification attributable to that net operating loss deduction when in the year of the initial loss the Missouri addition modifications are less than the Missouri subtraction modifications.

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What are Missouri addition modifications for purposes of section 143.431.4 RSMo Cum. Supp. 2004?

- State tax addback
- State and local bond interest (except Missouri)
- Fiduciary and partnership adjustment
- Missouri depreciation basis adjustment (Section 143.121.2(c) RSMo)

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What are Missouri subtraction modifications for purposes of section 143.431.4 RSMo Cum. Supp. 2004?

- Interest from exempt federal obligations
- Federally taxable - Missouri exempt obligations
- Reduction in gain due to basis difference
- Previously taxed income
- Amount of any state income tax refund included in federal taxable income
- Capital gain exclusion from the sale of low income housing project
- Fiduciary and partnership adjustment
- Missouri depreciation basis adjustment (Section 143.121.3(g), RSMo)
- Net operating loss carryback previously disallowed for Missouri (Section 143.121.2(d), RSMo)
- Depreciation recovery on qualified property that is sold (Section 143.121.3(h), RSMo)

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If the net operating loss deduction is composed of net operating loss amounts from more than one year, is there more than one net operating loss modification?

Yes, a net operating loss modification must be computed for each net operating loss included in the net operating loss deduction.

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If more than one net operating loss modification is computed, in what order are the amounts computed?

The net operating loss modifications are computed in the same order as the net operating losses are used as net operating loss deductions for federal income tax purposes.

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When did SB 1394 become effective?

Absent a specified effective date,SB 1394 became effective August 28, 2004. The changes to Section 143.431.4, RSMo, became effective August 28, 2004.

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Can line 1 on the Missouri return be zero?

Yes, line 1 of the Missouri return can be zero only when federal taxable income is zero. When a corporation has positive federal taxable income, line 1 on the Missouri return is the same amount. When a corporation has a net operating loss, i.e., negative line 30 on federal form 1120, line 1 on the Missouri return is also that negative amount.

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If line 1 on Form MO-1120 is negative and the corporation has net addition modifications, i.e., the addition modifications exceed the subtraction modification for that year, does the corporation have to file Form MO-5090 for the year of the loss?

No, the corporation only computes the net operating loss modification and files Form MO-5090 for each year a net operating loss deduction is claimed on a federal return not when the loss was incurred.

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An affiliated group of corporations that files a consolidated federal income tax return may elect to file a consolidated Missouri income tax return. If the affiliated group incurs a consolidated net operating loss and has net addition modifications on its consolidated Missouri return, does the affiliated group have to file Form MO-5090?

No, the affiliated group would only file Form MO-5090 for each year a net operating loss deduction is claimed on a consolidated federal return not in the year that the loss was incurred.

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An affiliated group of corporations files a consolidated federal income tax return but does not file a consolidated Missouri income tax return. Some members of the group file separate company Missouri returns. If a separate company incurs a net operating loss and has net addition modifications on its separate company Missouri return, does the separate company have to file Form MO-5090?

No, the separate company would only file Form MO-5090 for each year a net operating loss deduction is reported on a separate company pro forma federal return not in the year that the loss was incurred.

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Can't find an answer to your question(s)? Email us! We look forward to hearing from you!

TALKING TAXES

Corporate Income Tax Apportionment and the "Single Sales Factor"

One of the thorniest problems in administering state corporate income taxes is how to divide the income of multi-state corporations between the states. Ideally, each corporation's profits would be taxed exactly once at the state level. But in fact, some corporations pay no tax at all on some of their profits. This is largely because of state efforts to manipulate the "apportionment rules" that divide corporate taxable income between states. This policy brief explains how apportionment rules works, and assesses the usefulness of special apportionment rules such as the "single sales factor" (SSF) as an economic development tool.

Why Apportionment is Necessary

Many corporations do business in more than one state. Such multi-state corporations typically pay income taxes in more than one state as well. However, each state faces two important limits on how much of these corporations' income it can tax.

- First, if a corporation does not conduct at least a minimal amount of business in a particular state, that state is not allowed to tax the corporation at all. Corporations that have sufficient contact in a state to be taxable are said to have *nexus* with that state.
- Second, each state with which a corporation has nexus must devise rules for dividing the company's profits into an "in-state" portion and an "out-of-state" portion—and the state can only tax the in-state portion. *Apportionment* is the process by which states achieve this.

These limits exist for a good reason: if every state taxed all of the income of all corporations, businesses could find their profits taxed multiple times. And in fact, when state corporate income taxes were first adopted, there were no agreed-upon rules for dividing corporate profits between states. As a result, some businesses found that nationally, more than 100 percent of their profits were subject to state taxes. In the 1950s, legal reformers worked to set up a fair, uniform way of allocating income between states that would result in multi-state businesses' profits being taxed exactly once. The result was the Uniform Division of Income for Tax Purposes Act (UDITPA).

How States Apportion Income

The UDITPA model legislation prescribed relying equally on three different factors in determining the share of a corporation's profits that can be taxed by a state. These factors are:

1) The percentage of a corporation's nationwide **property** that is located in a state.
2) The percentage of a corporation's nationwide **sales** made to residents of a state.
3) The percentage of a corporation's nationwide **payroll** paid to residents of a state.

The main rationale for using these three factors to determine taxable income was that companies benefit from a state's public services in a variety of ways, including owning property in a state, making sales within a state, and having an in-state employee base. The three-factor formula ensures that corporate tax liability reflects the benefits received by each type of corporation.

If every state adopted this standard, it would be an important step towards ensuring that all corporate income is subject to tax—once. Initially, most states did adopt the UDITPA

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three-factor approach, assigning each factor an equal weight in determining taxable income. But in the past twenty years, many states have chosen to reduce the importance of the property and payroll factors, and increase the importance of the sales factor. More than a dozen states now "double-weight" the sales factor by making a corporation's in-state sales twice as important as each of the other factors. At the extreme, four states rely entirely on the sales factor (and therefore do not use the property or payroll factors at all) in determining a corporation's taxable income. This approach is known as the "single sales factor" or SSF.

By discriminating against some companies and in favor of others, the single sales factor makes corporate income taxes less fair–and can result in profitable companies paying no income tax.

Advantages and Disadvantages of Increasing the Sales Factor

SSF is typically enacted for two reasons. First, it is argued that SSF makes a state a more attractive place for businesses to expand their property and payroll: if the property and payroll factors are ignored in calculating a state's corporate tax, then a business can hire employees or build a plant in a state without incurring any additional corporate profits tax. Second, SSF is sometimes enacted in response to threats from companies that already have substantial in-state employment and property. For example, Massachusetts adopted SSF in response to threats from the Raytheon corporation that it would reduce its employment in the state unless it was adopted.

But these arguments overlook several disadvantages of heavily weighting the sales factor:

- While some companies will benefit from SSF, **other companies will actually pay more taxes under SSF**. Manufacturing companies that have more of their property and payroll in-state (and sell more of their products to customers in other states) will benefit from SSF, but companies with little in-state employment and property that sell proportionately more of their products in-state will be hurt by SSF. Whether SSF will cut, or hike, a state's corporate taxes overall depends on the importance of manufacturing in a state's economy.
- When SSF is enacted in response to the threats of in-state corporations to relocate in other states, there is **no guarantee that these corporations will not "take the money and run."** For example, after the passage of SSF, Raytheon cut thousands of Massachusetts jobs.
- SSF **creates harmful incentives for some businesses**. A company that sells products in an SSF state, but does so only by shipping products into the state (and therefore has no nexus) will not have to pay any income tax to the state. But if such a company makes even a small investment of employees or property in the state, it will immediately have much of its income apportioned to the state because the sales factor counts so heavily. Thus, SSF gives these companies a clear incentive not to invest in the state. Even worse, SSF gives companies with in-state employees an incentive to move all of their employees out of state to eliminate their nexus with the state—thus zeroing out their tax.
- By discriminating against some companies and in favor of others, SSF **makes corporate income taxes less fair**—and can result in profitable companies paying no state income tax. For example, under the Illinois SSF rules, a corporation that has all of its employees and property in Illinois—but makes all of its sales to customers in other states—will pay no Illinois income tax, no matter how profitable it is. This unfairness reduces public confidence in the tax system.

The use of SSF has created a lack of uniformity in corporate tax rules. As a result, corporations now face the same inequitable treatment that prompted the UDITPA rules fifty years ago: some multi-state businesses find their income taxed more than once, while others are not taxed at all. This inequitable treatment undermines the perceived legitimacy of the tax system by arbitrarily discriminating in favor of a small number of large manufacturing companies, and creates perverse tax incentives that can actually discourage a state's economic growth. Moving toward the evenly weighted three-factor formula is an important first step in preventing widespread tax avoidance and ensuring that state corporate income taxes are applied fairly.

To find out more about this issue, contact ITEP at (202) 626-3780

CATO INSTITUTE

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State Corporate Income Taxes Should Be Repealed

by Chris Edwards, Director of Fiscal Policy, Cato Institute

All taxes create economic distortions and impose compliance burdens on the private sector. However, some taxes are particularly inefficient because they create large burdens while raising little government revenue. State corporate income taxes are perhaps the most inefficient taxes in the nation. They generate only a small share of state revenues but "consume an inordinate amount of intellectual firepower and economic resources in terms of planning, compliance, and administration."[1] As such, states should consider repealing corporate income taxes as wasteful and unneeded parts of their fiscal systems.

Declining Share of State Revenues

All states except Nevada, South Dakota, Washington, and Wyoming impose corporate income taxes.[2] State corporate income taxes raised $32 billion in 2001, accounting for just 5.7 percent of state tax revenues and 2.7 percent of total state revenues.[3] These shares have declined since the late 1970s partly because corporate profits are more mobile than ever and companies have been effective at reducing their tax bills. In addition, government policies have reduced the corporate tax base. For example, rule changes have led to a rise in businesses organized as limited liability companies (LLCs), which are not generally required to pay corporate income taxes.

High Compliance Costs

While states are receiving relatively less revenue from the corporate income tax, the tax continues to distort business decisionmaking and impose large compliance costs on firms. One survey found that business compliance costs for the state corporate tax were about twice as high as for the federal corporate tax, relative to tax collected.[4] The state corporate tax raises only about one-fifth as much as the federal tax, but has compliance costs that are more than two-fifths as high.

Carving Up the Tax Base

Many corporations carry out production, distribution, and other activities in numerous states. What share of a firm's national profits should each state be entitled to tax? In the past, a three-factor formula of property, payroll, and sales occurring in each state was used to "apportion" a firm's profits between state governments. Today, varied and inconsistent formulas are used, and the definitions of the factors are subject to much debate and dispute.

With large differences in corporate tax rules between states, companies have incentives to restructure in order to minimize their tax burden. For example, firms can save money by moving labor-intensive production to states that de-emphasize payroll in their apportionment formulas. Tax-saving opportunities also arise because of differential taxation of intangible assets. For example, Delaware does not tax the earnings from intangible assets, thus firms should move trademarks to subsidiaries in that state.

For corporations, the complexity of state tax planning is magnified because of uncertainty in the rules for "nexus." That is, there is no clear standard for how much presence a company must have in a state before it is required to pay tax. Indeed, there is increasing litigation over nexus issues, which wastes resources and creates a roadblock to interstate commerce because businesses fear triggering new state taxes when they expand.

More Complexities

State corporate income taxes have all the complexities of the federal corporate tax, plus further problems:

- ***Different state and federal tax rules***. Businesses need to keep track of different income tax rules for every state they operate in. In addition, state rules can differ from federal tax rules. For example, about 20 states did not follow the recent federal depreciation changes that allowed partial capital expensing.

- ***Business vs. nonbusiness income***. State corporate taxes require that firms separate "business income" from "nonbusiness income." Business income is apportioned between the states while nonbusiness income (such as interest) is assigned to the state of commercial domicile. This distinction is surprisingly complex and is subject to many legal disputes with different rules in each state. Once again, businesses have many opportunities to pursue tax-cutting ideas such as converting business income to nonbusiness income and then moving it to a low-tax state.

- ***Separate vs. combined reporting***. Some states allow separate reporting for each company in a corporate group. Other states require combined reporting with the whole corporate group filing together. This creates many tax-planning issues for companies, such as whether to operate facilities in the various states as internal divisions or separate subsidiaries. A related tax-planning issue for companies involves how each state treats firms' foreign affiliates.

- ***Other complexities***. Businesses can shift profits from high-tax to low-tax states in many ways. One way is transfer pricing, which can move profits between states by altering the prices of goods shipped between related corporate entities. Holding companies are another planning tool. They can be established to carry out certain activities in states where they are not subject to tax, such as Nevada and Delaware.

In sum, state corporate tax systems are all different, complex, and require extensive business tax planning. As corporate profits have become more mobile, states have increased their enforcement and added complex new rules to stop supposed abuses of often ambiguous laws. As an editor of *State Tax Notes* observes: "The only people who really make money from the state corporate income tax system are the major law firms and big accounting firms."[5] Rather than continuing the costly battle between corporate tax lawyers and state tax administrators, states should throw in the towel on the corporate income tax.

Swiss Cheese

One might have sympathy for state governments in their losing battle to grab a share of the mobile corporate tax base if they had not turned the tax into a Swiss cheese of narrow loopholes.[6] "Incentive packages" for favored companies and fancy credits for job creation, job training, and other activities have proliferated. Such narrow breaks are unfair to businesses that pay the full tax load, and they open up government officials to corruption as firms lobby for special deals. Also, narrow breaks add to complexity in administration. For example, there are calls for states to spend more time and money monitoring firms that receive job credits to see if they actually create jobs. The reality is that even if corporate taxes were a good idea in theory, state politicians have shown that they are incapable of enacting simple and efficient corporate taxes in practice.

Hidden Burden on Individuals

State tax systems should be efficient, but they should also be transparent so that citizens can understand how much the government costs them. The corporate tax is not transparent and hence causes much confusion. For example, Virginia's governor Mark Warner says that he wants to increase corporate taxes because "individual taxpayers carry too much of the tax burden." But Warner should know that individuals carry the burden of all the state's taxes, including corporate taxes. One view is that the state corporate tax burden falls on individuals based on the apportionment factors of property, payroll, and sales. Thus, as states have moved to emphasize the sales factor in their apportionment formulas in recent years, the state corporate tax burden falls increasingly on consumers.

Conclusion

State politicians have created a costly and complex mess with corporate income taxes. As the mobility of corporate profits continues to rise, the corporate tax will become more inefficient and tougher for states to enforce. The solution is to repeal them, with the modest revenue losses to state governments made up with cuts to state business subsidies. The result would be more efficient state fiscal systems that did not favor any particular industry but promoted higher growth in all industries.

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[1] David Brunori, "Stop Taxing Corporate Income," *State Tax Notes*, June 25, 2002. See also Kirk J. Stark, "The Quiet Revolution in U.S. Subnational Corporate Income Taxation," *State Tax Notes*, March 4, 2002.
[2] Note that Texas has a franchise tax on corporations, which is similar to a corporate income tax.
[3] U.S. Bureau of the Census, "State Government Finances: 2001," www.census.gov/govs/www/state.html.
[4] Joel Slemrod and Marsha Blumenthal, "The Income Tax Compliance Cost of Big Business," Tax Foundation, November 1993.
[5] Brunori.
[6] Peter Fisher, "Tax Incentives and the Disappearing State Corporate Income Tax," *State Tax Notes*, March 4, 2002.

Reset Form | Print Form

CORPORATION NAME

NUMBER AND STREET

CITY OR TOWN, STATE, ZIP CODE

MITS/MO I.D. NUMBER	CHARTER NUMBER	FEDERAL I.D. NUMBER

Check Applicable Boxes ☐ Amended Return ☐ Name Change ☐ Address Change ☐ Final Corporate Income Tax Return ☐ Bankruptcy

MAIL TO:
Balance Due
Missouri Department of Revenue
P.O. Box 3365
Jefferson City, MO 65105-3365

MAIL TO:
Refund or No Amount Due
Missouri Department of Revenue
P.O. Box 700
Jefferson City, MO 65105-0700

FORM MO-1120S

Missouri S Corporation **INCOME TAX** Return for 2005	Missouri S Corporation **FRANCHISE TAX** Return for 2006
Beginning ______ , 20___	Beginning ______ , 20___
Ending ________ , 20___	Ending ________ , 20___

Balance Sheet Date (MMDDYY)

SOFTWARE VENDOR CODE (Assigned by DOR) **002**

☐ A. **Check this box and sign below if your assets in Missouri (Schedule MO-FT, Line 6a), or apportioned to Missouri (Schedule MO-FT, Line 6b) do not exceed $1,000,000. You do not owe franchise tax. If your assets do exceed the $1,000,000 threshold, you must complete and attach Schedule MO-FT and enter the franchise tax due on the Form MO-1120S, Line 15 below.**

☐ B. Return filed for **BOTH** (income and franchise)
☐ C. Return filed for **INCOME** tax **only**
☐ D. Return filed for **FRANCHISE** tax **only**

S CORP.

1. Does the S corporation have ANY Missouri modifications? ☐ YES ☐ NO If YES, complete Lines 1–14 below and page 2.
2. Does the S corporation have ANY nonresident shareholders? ☐ YES ☐ NO If YES, complete Lines 1–14 below and Schedule MO-NRS.
3. Does S corporation have income derived from sources other than Missouri? ☐ YES ☐ NO If YES, complete and attach Schedule MO-MSS.

MISSOURI S CORPORATION ADJUSTMENT

Additions (attach detailed explanation of each item)				
1a. State and local income taxes deducted on Federal Form 1120S	1a	00		
1b. Less: Kansas City & St. Louis earnings taxes. Enter Lines 1a less 1b on Line 1.	1b	00	1	00
2a. State and local bond interest (except Missouri)	2a	00		
2b. Less: related expenses (omit if less than $500) Enter Line 2a less Line 2b on Line 2	2b	00	2	00
3. ☐ Partnership ☐ Fiduciary ☐ Other adjustments (list ____________)			3	00
4. Missouri depreciation basis adjustment (Section 143.121.2(c) RSMo)			4	00
5. Total of Lines 1 through 4			5	00
Subtractions (attach detailed explanation of each item)				
6a. Interest from exempt federal obligations	6a	00		
6b. Less: related expenses (omit if < $500) Enter Line 6a less Line 6b on Line 6	6b	00	6	00
7. Amount of any state income tax refund included in federal ordinary income			7	00
8. Federally taxable — Missouri exempt obligations			8	00
9. ☐ Partnership ☐ Fiduciary ☐ Other adjustments (list ____________)			9	00
10. Missouri depreciation basis adjustment (Section 143.121.3(g) RSMo)			10	00
11. Depreciation recovery on qualified property that is sold (Section 143.121.3(h) RSMo)			11	00
12. Total of Lines 6 through 11			12	00
13. Missouri S corporation adjustment — **NET ADDITION** — excess Line 5 over Line 12			13	00
14. Missouri S corporation adjustment — **NET SUBTRACTION** — excess Line 12 over Line 5			14	00

FRANCHISE TAX

15. Corporation Franchise Tax (Complete Schedule MO-FT and attach balance sheet)	15	00
16. Tax credits — (attach Form MO-TC)	16	00
17. Approved overpayments applied from last file period	17	00
18. Payments with Form MO-7004	18	00
19. **AMENDED RETURN ONLY:** Tax paid with (or after) the filing of the original return	19	00
20. Subtotal — add Lines 16 through 19	20	00
21. **AMENDED RETURN ONLY:** Overpayment, if any, as shown on original return or as later adjusted	21	00
22. Total — Line 20 less Line 21	22	00

REFUND /TAX DUE

23. If Line 22 is greater than Line 15, enter OVERPAYMENT here	23	00
24. Overpayment to be applied to next filing period	24	00
25. Overpayment to be refunded — Line 23 less Line 24 **REFUND**	25	00
26. If Line 22 is less than Line 15 enter UNDERPAYMENT here	26	00
27. Enter total amount on Line 27 Interest $ ______ Penalty $ ______	27	00
28. TOTAL DUE — add Lines 26 and 27 (U.S. funds only) **TOTAL DUE**	28	00

SIGNATURE

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which he/she has any knowledge. As provided in Chapter 143, RSMo, a penalty of up to $500 shall be imposed on any corporation which files a frivolous return.

I **authorize** the Director of Revenue or delegate to discuss my return and attachments with the preparer or any member of his/her firm, or if internally prepared, any member of the internal staff. ☐ YES ☐ NO

SIGNATURE OF OFFICER **(REQUIRED)**	TITLE OF OFFICER	PHONE NUMBER	DATE SIGNED
PREPARER'S SIGNATURE (INCLUDING INTERNAL PREPARER)	PREPARER'S FEIN, SSN, OR PTIN	PHONE NUMBER	DATE SIGNED

DOR ONLY ☐ **S** ☐ **E** ☐ **B**

This form is available upon request in alternative accessible format(s).

ALLOCATION OF MISSOURI S CORPORATION ADJUSTMENT TO SHAREHOLDERS

CORPORATION NAME	MITS/MO I.D. NUMBER	CHARTER NUMBER	FEIN NUMBER

1. NAME OF EACH SHAREHOLDER. ALL SHAREHOLDERS MUST BE LISTED. USE ATTACHMENT IF NECESSARY.	2. CHECK BOX IF SHAREHOLDER IS NONRESIDENT	3. SOCIAL SECURITY NUMBER	4. SHAREHOLDER'S SHARE %	5. SHAREHOLDER'S CORPORATION ADJUSTMENT ☐ ADDITION ☐ SUBTRACTION
a)	☐	— —	%	00
b)	☐	— —	%	00
c)	☐	— —	%	00
d)	☐	— —	%	00
e)	☐	— —	%	00
f)	☐	— —	%	00
g)	☐	— —	%	00
h)	☐	— —	%	00
i)	☐	— —	%	00
j)	☐	— —	%	00
k)	☐	— —	%	00
l)	☐	— —	%	00
m)	☐	— —	%	00
n)	☐	— —	%	00
o)	☐	— —	%	00
p)	☐	— —	%	00
q)	☐	— —	%	00
r)	☐	— —	%	00
s)	☐	— —	%	00
t)	☐	— —	%	00
u)	☐	— —	%	00
v)	☐	— —	%	00
w)	☐	— —	%	00
x)	☐	— —	%	00
TOTAL			100 %	00

COLUMN 4 — Enter percentages from Federal Schedule K-1(s). Round percentages to whole numbers.

COLUMN 5 — Enter Missouri S corporation adjustment from Form MO-1120S, Line 13 or 14, as total of Column 5. Multiply each percentage in Column 4 by the total in Column 5. Indicate at the top of Column 5 whether the adjustments are additions or subtractions. The amount after each shareholder's name in Column 5 must be reported as a modification by the shareholder on his/her Form MO-1040, Individual Income Tax Return either as an addition to, or subtraction from, federal adjusted gross income.

MISSOURI DEPARTMENT OF REVENUE
CORPORATION FRANCHISE TAX SCHEDULE

SCHEDULE
MO-FT

Attachment Sequence No. 1120-03 and 1120S-01

Schedule MO-FT must be filed with the Form MO-1120 or Form MO-1120S.

CORPORATION NAME	MITS/MO I.D. NUMBER	CHARTER NUMBER	FEIN NUMBER

FILE PERIOD BEGINNING (MMDDYY) 20 , ENDING 20

BALANCE SHEET DATE (MMDDYY)

Do your assets include an interest in a partnership and/or limited liability company? YES ☐ NO ☐

Has there been a change in your accounting period? YES ☐ NO ☐ If yes, state prior accounting period ___________________

Read instructions before completing this schedule.
NOTE: You cannot file a consolidated franchise tax return.

- Corporations having all assets within Missouri complete Lines 1, 2, 6a, and 7 **ONLY**.
- Corporations having assets both within and without Missouri complete all lines except 6a.

1. Par value of issued and outstanding stock (For no-par value stock, see instructions) **(not less than zero)**	1	00
2. Assets		
2a. Total assets **per attached balance sheet**	2a	00
2b. Less: Investments in and advances to subsidiaries over 50% owned (Attach Schedule MO-5071 or a schedule showing name of corporations, percentage of ownership, and amount)	2b	00
2c. Adjusted total (Line 2a less Line 2b)	2c	00

3. Allocation per attached balance sheet or schedule (See instructions.)		(A) MISSOURI		(B) EVERYWHERE
3a. Accounts receivable (net of allowance for bad debt)	3a	00	3a	00
3b. Inventories (net, book value)	3b	00	3b	00
3c. Land and fixed assets (net of accumulated depreciation)	3c	00	3c	00
3d. Total allocated assets (add Lines 3a, 3b, and 3c)	3d	00	3d	00

4. Missouri percentage for apportionment (Line 3d, Column A divided by Column B) Extend the apportionment percentage to six digits to the right of the decimal point.	4	
5. Assets apportioned to Missouri (Line 2c times Line 4)	5	00
6. Tax basis:		
6a. Corporations having all assets within Missouri (Line 2c or Line 1, whichever is greater)	6a	00
6b. Corporations having assets both within and without Missouri (Line 5 or the product of Line 1 times Line 4, whichever is greater.) If Line 6a or Line 6b is $1,000,000 or less, **STOP HERE** and **check Box A on Form MO-1120 or Box A on Form MO-1120S.**	6b	00
7. Tax Computation		
7a. Tax — 1/30th of 1% (.000333 of Line 6a or Line 6b)	7a	00
7b. Short periods (see instructions) — Line 7a x _______ / 12 (insert number of months in short period) = Prorated Tax Due	7b	00
7c. Tax due (Line 7a or Line 7b, whichever applies) Enter here and on Form MO-1120, Page 1, Line 15 or Form MO-1120S, Page 1, Line 15	7c	00